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Overcoming Inertia:

How recessionary chaos and disruptive technology are fueling

an evolution in advertising agency organization and compensation models

by

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This professional report outlines and assesses of various advertising agency organization and compensation models. It provides an analysis of how the disruptive technology of the Internet has changed consumer media habits and caused a paradigm shift in the marketing communications landscape and how the current economic recession has affected agencies. The organization models addressed include the traditional silo model and the roster model. Compensation models include labor-based fee models, commission-based models, and several new models that the industry has recently embraced.

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PART ONE: CHAOS & COMMUNICATIONS PLANNING

In his 2005 book, *Space Race,* Jim Taylor argued that changes in the media were bringing about a paradigm shift that would eventually force changes in the way marketers and advertising agencies operated. He listed several valid reasons for why the industry should proactively adjust to this shift, but then prophetically stated the following:

> Perhaps the problem is that these reasons are a little too worthy; business doesn't respond well to 'worthy.' Rather, it responds to things like ROI and share price; it responds to crises and events that capture the imagination of a company. So maybe we need a crisis to really set the burner ablaze.
>
> Maybe someone should pour a little kerosene on it… (2005, 21)

Kerosene: The Worst Economic Meltdown Since The Great Depression

The economy is currently in the throes of the worst recession the world has seen in eighty years, and economists caution that it is going to get worse before it gets better. Every recession hurts the advertising industry, but this one seems to be much deeper and widespread that anyone has experienced. This downturn is quite unlike what America went through in the 2001 recession following the burst of the dotcom bubble. That fiasco knocked the advertising industry on its feet, but the most severe punishment was somewhat isolated to those agencies and clients who had a direct tie to the over-speculated web industry. This collapse is different. Not only is it hitting every sector of the marketing industry, it is walloping the entire economy and creating drastic changes in consumer attitudes and behavior. Before discussing some of the effects that this

recession is having on agency models, an explanation of the underlying causes of the industry's current pain is required.

The effects of recessions on the marketing & advertising industry

The marketing industry lives and dies by the feelings and actions of consumers. Any time there is an event that affects consumer lifestyles, it affects the marketing along with it.

The New York Times has reported that unemployment had reached a 25 year high at 8.5% (Greenhouse 2009). Following the wake of a delirious housing bubble, home foreclosure rates are also urgently high and the nations banking infrastructure has been poisoned by dubious "financial instruments" like credit default swaps, leaving lenders sick with toxic assets and excessive debt. The American economy, once awash with easy credit is in a crunch: cash flow for both companies and consumers is crippled. Many Americans have lost their jobs, their houses, or both. Even for those who have not been directly affected by the recession, times are uncertain. Consumers are nervous about the state of the economy and concerned that even if they have not yet lost their job, they may soon. The recession brought about the consumer confidence index numbers in the metric's history, indicating that Americans are expecting the worst of this recession to continue for many more months, if not years. This collective anxiety over financial insecurity is causing consumers to cut back on their spending, save more, and delay big purchases.

When consumers spend less money, companies bring in less revenue to support themselves. If their income has slowed significantly, they may have to make budgetary

cuts of their own by either finding and correcting inefficiencies in their organization, or reducing their spending. When looking for these cuts, executives face difficult decisions, often having to choose between downsizing their staff and decreasing their marketing budgets, which can compromise future revenue earnings. Since advertising cuts are easy to make, clients often elect to shrink their budgets by renegotiating contracts with their agencies and vendors, reducing their media spending, or cutting campaigns. Since marketing services companies are directly dependent on client spending for their own livelihood, recessions are bad news for agencies, and almost always lead to massive layoffs in the industry.

More often than not, advertising cuts are subtle shifts in spending, rather than pronounced dropoffs. Production and media are usually the first disciplines to feel the squeeze. Clients may decide to let an existing campaign run a little longer than originally planned so that they can hold off on executing new ideas until they have more flexible spending, leaving producers with idle time as they wait for more projects to work on. Clients may also simply reduce their media spend or reallocate dollars toward less expensive, more efficient messaging channels. For example, a client may decide that since they cannot afford the high cost of broadcast television in a given quarter, a campaign could be moved to Omnivideo, so that they can run the same advertisements on the network's online TV platform for less money (and a significantly smaller audience).

This recession has affected all sectors of the economy, but certain categories have been particularly vulnerable to changes in consumer and government sentiment. When consumers are trying to scale back, they plan less vacations (which knocks the airline and

hospitality industries), hold out on buying new cars, spend less on their credit cards, and stop shopping in retail stores for non-essential goods like clothing. If they do need to buy something, they will downgrade from higher-priced luxury items to private label or discount brands. As evidence of this trading down, Victoria's Secret has seen significant losses in same-store sales and share prices since November, while Hanes has seen growth in their sales of womens' undergarments in the same time frame (Boston). These changes in consumer buying behavior have been injurious to the auto, travel, finance, and retail industries, which are some of America's biggest contributors to the mass media and large advertising agencies. In the first three quarters of 2008, General Motors (GM) spent $757 million on measured media, but 2009 is going to be a drastically different story, as the company has received $15.4 billion in federal bailout loans (AP 2009) to date (funded by unhappy taxpayers) and has been ordered by Congress to drastically reduce spending by $600 million over the next four years (Halliday 2008). The automaker is currently looking to unload its Hummer, Saab, Saturn, and Pontiac brands, which will cut GM's portfolio by half. Suffice to say, advertising for GM brands has come to a screeching halt. The company's suffering has trickled down to the agencies that work on its behalf (mostly based out of Detroit and Chicago). Shops like GM Planworks (a division of Starcom Mediavest) and Campbell Ewald have appeared in the trade headlines with news of severe layoffs (Halliday 2009). When there is no client work to be done, agencies cannot afford to keep their talent. They must shed it in order to stay alive.

According to the most recent report by the Bureau of Labor and Statistics (February, 2009) advertising agencies in the US have lost as many as 35,800 jobs since

the recession began, and if the advertising-supported media outlets are included, that number jumps to 65,100 (Edwards 2009). The ad business is reeling from the shocking news that the Chicago office of JWT has closed its doors after 118 years in the business, leaving behind a legacy of creating iconic branding campaigns (DJ 2009). Even perennial hotshops Crispin Porter & Bogusky, Fallon, and Goodby, Silverstein & Partners have gone through rounds of layoffs, despite recently winning new national clients in the last six months. Though no type of agency has been immune to these drastic recessionary effects, the cuts have been deepest at large full-service agencies owned by the publically traded holding companies.

The effects of recession on mass media

Traditional mass media outlets are arguably in far worse trouble than advertising agencies, and have been since before this recession began. While consumer demand for advertising has been low for years, media corporations are now dealing with the fact that advertisers' demand for advertising is tanking as well. Decades ago, John Wanamaker was famously quoted saying "I know half the money I spend on advertising is wasted, but I can never find out which half" (Richards 2008). If Wanamaker were back in marketing today, he would have the same problem. Clients know that advertising is becoming less effective, but they also have more channels through which they can connect with their customers than advertising in traditional media alone. Though clients are still lagging behind their consumers in the shift online, they are investing more heavily in digital

communications than they have in the past. According to a study conducted by the IBM Institute for Business Value, "63 percent of the global CMOs who were interviewed said they expected to increase interactive and online marketing spending in 2009 while 65 percent will cut back on traditional advertising." (O'Leary 2009). This transition has been a slow start for clients, but the recession is providing even more encouragement for clients to divert their traditional media spending toward more cost-effective methods, and right now, online search and display media are extremely inexpensive due to an essentially limitless supply of space unmatched by demand (Garfield 2009).

The issues plaguing the traditional mass media are fundamentally rooted in an outdated business model. Volumes have been written about the flaws in the print publishing industry, and though newspapers are bearing the brunt of public criticism, magazines are shackled by the same problems. When print publishers first began putting their content online, they considered it a value-add for their subscribers, so that they could access archives and see content that never made it into the final issue of the paper or magazine. With a few exceptions (notably the Wall Street Journal), publishers did not charge their subscribers for this extra service, even though it required extra manpower and resources to maintain an online offering. Most did not restrict access of this content to subscribers either, as some believed that hosting it online and making it available to the public would attract new print subscribers. Publishers planned to monetize this content the same way they did their print issues: by selling display space to advertisers. However, publishers underestimated the number of people who would forsake their costly print subscriptions in favor of simply reading the same content online for free. Now even

major newspapers like the Philadelphia Inquirer are going bankrupt, and magazine publications like Blender, Teen People, FHM and Home Magazine have been shuttered due to falling circulation and decrease in ad pages. The damning errors (which are always easier to understand in hindsight) that these print media vehicles made was failing to adjust their business models as their readers' consumption patterns changed, and undervaluing their content by giving it away for free.

White print media is disintegrating, national broadcast and cable TV networks have their hands full with trying to attract advertisers who are fully aware that DVR technology is letting viewers skip over their expensive TV spots. The networks do have some comfort in knowing that for the time being, the quality of the content they provide to viewers is remains unrivaled in the media landscape. Print media outlets are not so fortunate. The ubiquity of online publishing platforms is giving people the power of their own press, and online readers can now access high quality near real-time news and editorial content on blogs and special interest sites without paying a cent for any of it.

Even online advertising is in peril, with display networks like Tacoda struggling to keep their prices up and bring in enough revenue to support their sales staffs. Because anyone can create their own blog or website with a few simple tools, the supply of available advertising space inventory has grown far faster than advertisers' demand for it, turning it into an economically lopsided market where media buyers can simply find another provider that can deliver the audience at lower CPMs (cost per thousand impressions). As in all media channels, online display vendors are selling ads that consumers are avoiding or blocking with technology. So-called "banner blindness" has

been a documented phenomenon since the turn of the century. Even the paid search market is grappling with cuts, as click fraud remains a concern and marketers are cutting their budgets. Google laid off 200 sales and marketing employees in late March of this year, as even the tech giant is unable to conquer the demand issue in a down economy (Learmonth 2009).

Media critic Bob Garfield is calling the state of the mass media industry a “chaos scenario” in which all of the industry’s most grave predictions are converging in the midst an economic meltdown. Media outlets desperately need to make money right now, but they can no longer bring in enough revenue to offset the costs of producing their content. Both Garfield and Wired Magazine editor Chris Anderson are in agreement that now that consumers are used to getting their majority of their news and entertainment for free (from an unlimited number of free information providers), they will likely not pay for it again.

If the Titanic of mass media sinks, traditional advertising agencies will get sucked in after it. Not long ago, traditional media outlets were the sole controllers of the press in our society, but now society is the press, and every member has a voice and access to a platform from which to speak. The media has always sold consumer attention to marketers, but when marketers are unable to pay for that attention, they will have to earn it. If traditional ad agencies cannot innovate their offerings, rest assured, their clients will find someone else who can. Some of them already have.

Changes in the Audience

The problem with the traditional advertising agency model is that it only works well to create traditional advertising, and in a world where paid media is in a tailspin and the effectiveness of advertising is suspect, ad agencies are becoming dangerously irrelevant. A number have factors have contributed to this, but all have stemmed from radical changes in how consumers view ads, experience the media, and make purchase decisions.

The primary service that advertising has always provided in the marketplace is information: the practice enables companies to inform potential customers about their offerings, and introduces products and services to consumers that could satisfy their wants and needs.

Advertising was mutually beneficial to companies and consumers. However, technology is disrupting that delicate balance. The web has made information ubiquitous, search engines have made it accessible on-demand, RSS feeds have enabled people to customize the information they want to receive as soon as it has been published. Consumers no longer need advertising to inform their attitudes toward products and services and help them make purchase decisions. They can access volumes of user reviews of products across online retail stores like Amazon, social networks, and blogs, and consumers have much more faith in the truthfulness of this information than they do in ads. According to Karl Long, traditional advertising agencies are "in the awareness building business," which he has argued, is a business in rapid decline:

> “...if you think about it, the internet is very quickly solving the awareness problem much faster than advertisers can. Right now with my personal network I hear about products I might want even before they are built. Not only that, if it’s a really interesting product I might even get connected with the founders of the company and give them immediate feedback via Twitter, Facebook, or their blog. (2009)

As Long and others have pointed out, social media and the web create a direct link between companies and their customers, which endangers the mass media outlets and advertising agencies that used to have more ownership of that link. Clients are increasingly eliminating the middle-man and directly engaging with their customers.

In addition to the fact that consumers have less need for advertising in their lives, the clutter of commercial messages in the world has fueled their growing distaste for ads. It has been estimated that the average American sees approximately 5000 commercial messages per day (Vidrashko 2007), which has increased in recent years as media channels proliferated and chased consumer niches. Consumers have historically tolerated the pervasive presence of advertising because it paid for the inexpensive media they had access to. In exchange for consumer attention to their messages, marketers were more than willing to fund the media outlets. This symbiotic relationship has effectively been busted by the internet; now that consumers have access to an ever-expanding base of content devoid of advertising, they no longer have to trade their attention for the content they want and the audience for traditional ad-supported media is dwindling.

What is perhaps even more damaging than the distaste for advertising is the way that technology is now gifting consumers greater control over their media interaction and ultimately enabling them to filter commercial messages out of their lives. With digital video recorders like TiVo and sophisticated online ad blockers, people have more control over how they experience their entertainment and consume media. A study conducted by Starcom and TiVo found that "90% of DVR users surveyed said they "always" or "almost always" fast-forward through commercials" when they record shows and that nearly three-fifths of affluent Americans had the technology (eMarketer 2008). As we have seen across the media landscape, people are consuming more content than they have in the past, but that does not mean they are consuming more ads. As consumers are gaining control, media outlets are losing it. Broadcast and cable television networks alike are in a constant fight to protect their content from being pirated across the web. In 2007, Viacom sued YouTube for streaming copyrighted clips from episodes of Comedy Central shows like the Daily Show with John Stewart (Viacom 2007). TV networks seem to have come to grips with the fact that its audience is moving to the web, and have built their own advertising-supported platforms for hosting content. NBC and CBS launched Hulu in ---- as a joint venture to stream the networks' shows, and recently Disney purchased a large share in the company and agreed to give Hulu the rights to air its online video content (Learmonth 2009). While the platform has grown enormously in unique visitorship (it now rivals only YouTube as the web's biggest video platform), the site is still struggling to sell its ad inventory in a glutted market. Film studios have also begun to partner with Hulu and other online distributors (including Amazon and iTunes) to try to

bring in revenue from digital film viewership, as they too face significant challenges with piracy. In March 2009, a rough copy of Twentieth Century Fox's movie *X-Men Origins: Wolverine* leaked online more that a month before its May release. Pegged to be one of the studio's summer blockbusters, the $150 million film opened to a lower-than-projected weekend premiere at the box office (Siegel 2009).

The business model of most advertising agencies is in dire straits, so much so, that bloggers and industry pundits frequently draw comparisons between the advertising industry and the music industry. A decade ago, the biggest profiteers in the music industry were the recording labels, which made money by distributing music at high markups to public. Technology made their business model obsolete, as sharing music files over the web was a much more efficient way for music fans to access content. The music industry did innovate a way to monetize digital distribution of songs, but it came from a technology company, Apple, in the form of the iTunes store. People are listening to more music than they did ten years ago; the music industry has not declined, but the market share of the once-dominant record labels has been obliterated by technological and cultural shifts. The same can be said of newspapers, which have seen their readers move from paid print subscriptions to online content, which they failed to monetize.

Communications Planning

For most of the twentieth century, the only way for companies to communicate with large groups of people in a cost effective manner was by advertising in the mass media. While those companies typically engaged other forms of communication (such as BTL practices like direct mail and sales forces) on top of their advertising efforts, those

channels could only deliver small audiences and were expensive. Even today, the most cost efficient CPMs come from broadcast television. Marketers may have had misgivings about the effectiveness of running ads, but for decades they did not have attractive alternatives to turn to, so advertising in traditional media became their default communications practice. Now, the Internet provides more communication options, and is challenging old assumptions about how marketers can best connect with their consumers.

As the utility of advertising has been called into question over the past ten years, marketers have begun to reconsider how they should promote their brands and allocate their budgets. They are evaluating the many avenues through which they can communicate. Since the turn of the century, "communications planning" has fast emerged as a discipline to help marketers navigate the rapidly expanding communications landscape and identify the tactics and channels can provide them with the most appropriate direction for moving forward in their given business situation. To explain the practice of communications planning, Jim Taylor defined it as such in his book, *Space Race:*

> Communications Planning is the discipline of developing a holistic plan across markeing and trade functions, that defines how a brand will communication with consumers. It means planning the use of a client's communication across all marketing channels and disciplines, at time even challenging the definition of established channels or inventing new ones. It goes beyond simply selecting channels and allocating monies. It also

> means defining the brand proposition, identifying the best consumers to talk to and determining the best times to find them in the right frame of mind to hear the message. Ultimately, communications planning is about creating a "big picture" for the consumer by weaving together every aspect of a brand's communications (2005, 5).

In its earliest form, this discipline was typically referred to as Integrated Communications Management, and as marketers and agencies have embraced the discipline, many have given it a proprietary moniker. Among the first to practice it was Ogilvy Worldwide, which calls it "360˚ planning." Others call it communication channel planning or connections planning (most popular on the agency side), but regardless of its various name tags, the philosophy of communications planning is the same (Taylor 2005, 7). There are four basic principles that guide and unite those who practice this discipline: Idea First, Neutrality, Consumer Centricity, and Multidimensional Branding.

Idea First

"Without a big idea, your brand will pass like a ship in the night" (Ogilvy 1988).

The practice of communications planning calls for careful research to understand the brand and its positioning in the hearts and minds of consumers. Without a strong strategic purpose and creative idea to carry the torch for the product, messages will fail to persuade.

Though the advertising business has long lectured about the importance of creating "big ideas," it has also gotten into a "nasty habit" of paying for media upfront and tailoring creative to the inventory on hand, rather than letting the idea decide which

format is best (Parker 2009). Communications planning advocates believe that setting the idea for the brand and the objectives for marketing must always come before all other steps in the process.

Neutrality

Marshall McLuhan proclaimed that “the medium is the message” (Parker 2009). In his view, the environment, situational context, and the channel through which a message is delivered have far more bearing on the likelihood of successful persuasion than the content of the message itself. In this modern era, McLuhanism has only become a more true philosophy.

In communications planning, selection of communications channels is tailored to the client’s given situation. Message delivery is carefully planned to address narrowly defined client objectives and media channels are evaluated based on how well they align with the target audience’s consumption habits, the personality of the brand, and the idea contained in the message. Communications planners weigh the inherent qualities of various media channels to find those that are the most appropriate solutions for the client’s problems. For example, television spots are strong emotional communicators, as they present sight, sound, and motion cues to the viewer. TV provides a large audience for a client’s message, but due to the 30 second time limit, this message often has to be stripped of nuance and over-simplified, so it is not a strong medium for communicating complicated information. Marketers must also analyze their target’s TV consumption patterns across dayparts and networks, and consider that audience groups vary in their receptivity to commercial messages. They may find that in trying to address a younger

target, video is the appropriate medium to present the idea, but that placing that video on television would be less effective that posting it to YouTube, as young people are more spending more time there, and the platform allows the video to run longer than 30 seconds.

The key in communications planning is to evaluate all possible communications channels from a neutral perspective, and ignore the biases that may predispose them to selecting one channel over another by default. Often clients license their agencies to purchase media space in bulk at network upfronts as a way of securing a discount. However, once clients own this inventory of space, they must use it, which creates a situation where they have to tailor creative to fill the media space, rather than buying the media space to best present the idea. Communications planners recommend that clients wait to secure media space until after creative has been developed.

To be sure, not all business problems are communications problems, and depending on their situation, clients may be better off changing how their product or how it is distributed in the marketplace than trying to message their way out of it. In the spectrum of marketing services providers, different players are using different rhetoric to promote the neutrality principle depending on their capabilities. Media agencies call it "channel neutrality," advertising agencies and communications planners most often refer to is as "media neutrality" and independent strategists refer to it as "solution neutrality."

Of all these players, advertising agencies are having the most difficulty in establishing credibility in their neutrality claims, and are facing significant criticism from the rest of the industry. The argument is a valid one. Advertising agencies on the labor-

based compensation model make most of their money by implementing strategies, because it takes much longer to execute an idea than it does to come up with it in the first place. These agencies are heavily invested in resources to execute advertising campaigns in traditional media, and therefore have more incentive to recommend that their clients address their problems with advertising. While agencies often suggest alternative solutions to clients (which they may or may not be capable of providing), they typically pitch services that they provide to go along with them. This helps agencies stay involved with the client's projects and protect their own workflow and bottom line. Paul Woolmington of Naked Communications describes this issue as such:

> "If I ask them what I should have for dinner, butchers recommend meat. Sometimes they might suggest some vegetables or wine to go along with it, but those are always suggested based on what will pair best with the meat" (2007).

Woolmington would argue that as long as ad agencies are getting paid for executing ideas, they will continue to recommend that which they can execute, and thus are not neutral. Agencies are clamoring to attract talent that can bring ideas to life in digital technologies so that they can provide this capability to their clients, but digital talent is exceedingly in-demand and expensive, so this process has been a slow one for agencies. The vast majority of the work they do for clients still fits standard ad formats and runs in traditional paid media channels.

Consumer centricity

> "If you can't turn yourselves into a consumer, then you shouldn't be in the advertising business at all"

- Leo Burnett (Steel 1998, 9).

Great advertising thinkers have always stressed the importance of putting the consumer at the center of communications, and tailoring the message and its delivery to the audience's unique lifestyle. Advertising agencies are committed to this principle, and most full-service shops in the US house an account planning team to conduct research about consumers and bring the agency insights into how they can be engaged best. These strategic thinkers have been dominating conversations about communications planning. The importance of focusing on the consumer and his needs has never been in dispute, but increased consumer control and shifts in the media landscape have emphasized its priority.

Communications planners attempt to address consumers on an individual level, and tailor the content, delivery, and tone of the message to their unique needs. Rather than positioning the client's product the same way across various target audiences, communications planning talks about the brand differently according to which of its many niche audiences it seeks to connect with.

Communications planning seeks to involve the brand's many consumer groups in dialogue by giving them ample opportunity to engage the brand and provide feedback. Two-way communication is much more difficult to plan for than a monologue.

Multidimensional branding

David Ogilvy's definition of a brand was "a promise of value delivered consistently over time" (Ogilvy 1988). While this definition is not irrelevant to today's world of marketing, it has become a bit out of date.

For decades, advertisers have been trying to take complicated information about a product and boil it down to one promise that can be expressed in a "magic sentence" that perfectly sums up the brand. This exercise was useful, since it helped creatives formulate simple messages in advertisements that audiences could easily understand and remember. The medium was finite; it gave brands one page or 30 seconds or 728 x 90 pixels on a screen to persuade, and these formats constrained companies and forced them to focus the essence of their brand into one note that could be understood by everyone. That one note was then repeated in the different media to ensure that consumers would remember it.

This form of branding is at odds with how consumers think about companies and products. Rather than seeing a brand for one thing, people form complex associations around a brand built on the many ways they have experienced it. In consumers' minds, conceptualizations of brands are anything but simple, and while these associative networks may include nodes that come from the advertising (such as remembering the brand tagline), consumers place more weight on those associations which come from their own experience. In an attempt to visualize consumers' associative networks, Barbarian Group strategist Noah Brier created Brand Tags as "a collective experiment in brand perception" (Brier 2009). This site collects the words and phrases that come to mind when consumers think about a given brand, and then analyzes and presents those entries in a tag cloud, which highlights the expressions that were most commonly reported. These clouds are far more heavily populated with consumer attitudes about the brand than they are with messages that were created by advertisers.

The reality is that brands are many things to many people, and should be addressed that way. Promoting brands in the mass media requires marketers to reduce their brand proposition to the most common denominator, and promote the elements of the brand that are most likely to resonate with the most amount of people in the audience. With digital technology bringing increased targeting capability, marketers are now free to finely segment their consumers into niche groups and speak to them in ways that are appealing to them as a distinct constituency of the brand. Communications planning helps marketers create multidimensional brands that extend beyond the one promise of value.

Gareth Kay, Director of Planning at Modernista!, would argue that the modern era of branding is not about communicating a brand, but about creating energy around a brand (Kay 2007). One of the pioneers in this arena, Y&R (a global agency held by WPP) argues that "a brand is a direction, not a place", and that for brands to be successful, they must have energy to push them forward (Y&R 2009). Through studies from their Brand Asset Valuator, Y&R found that above all other brand indicators (including awareness, level of distinction in the marketplace), energy, or the extent to which consumers believe that a brand is active and moving forward, is the best predictor of that brand's success in the marketplace (Gerzema & Lebar 2008). David Thorpe of Ogilvy has referred to this principle as "brand journalism" and argues that in order for consumers to pay attention to brands, they have to be newsworthy (2008) and that brands that sit still or constantly present the same stagnant messages are not going to interest consumers.

For communications planning to be successful, marketers must embrace their brands as living organisms that are consistent, without being repetitive. An oft-expressed example of an energetic, multidimensional brand is Nike. Its brand has always been about pushing athletes to stop talking about action and "just do it." In recent years, Nike has embraced that philosophy in its own marketing strategy, and diverted some its budget away from advertising and invested it in creating new ways of empowering athletes. They invented the Nike+ platform in a joint venture with Apple to help athletes track and share data about their runs with a larger community, and created the Nike Human Race that got runners from its community around the world together in a global event. Nike is consistently innovating and improving the sport experience for athletes, and has created a community and renewed enthusiasm around the brand.

PART TWO: AGENCY ORGANIZATION MODELS

When clients choose to look outside their organizations for marketing communications, they have two options: they can either hire one shop to do it all, or assemble a roster of agencies that can be assigned to specific pieces of the business. The following section will define and discuss the relative merits of each approach, and then highlight how these models are evolving in the midst of industry chaos.

The Full Service Model

Full-service agencies formed in the hopes of becoming a one-stop shop for clients seeking marketing communications support. Clients liked the model because it meant that they could spend less of their own time working on their advertising and would not have

the extra task of managing relationships with multiple agencies. Agencies were also keen on the model, as they hoped that providing everything clients needed would keep clients satisfied and protect the agency from losing accounts to other shops. The dream of the full-service advertising agency was so attractive that holding companies such as WPP (which was originally a company that manufactured shopping carts) and Interpublic sprang up to purchase and restructure agencies to become the full-service agencies that clients demanded.

The Traditional Silo Model

The traditional silo model has been the prevailing business and organizational structure for full-service advertising agencies since the middle of the twentieth century (A Jaffe 2003).

Agencies that are built in this model have employees organized into departments, and most of these agencies (especially those who are owned by holding companies such as WPP or Omnicom) manage and evaluate each department on their own profit and loss statement (P&L).

These departments are typically organized by the function they perform for the agency's clients, and are hierarchically managed by department leaders who have risen through the ranks. Their structure is bottom-heavy, meaning that there are more employees in the lower and mid-level ranks of the company than there are in management at the top. Full-service agencies usually have Account/Strategic Planning departments who provide research-based, consumer-centric strategic direction to creatives and clients, Creative departments who craft brand messaging concepts,

Production departments who execute the message into various forms, and Account Management departments who coordinate the day to day efforts of the agency and manage the client relationship. Others include Media departments who plan distribution of the message and buy space for it in media channels and Public Relations departments who work to earn favorable press coverage on behalf of clients.

Work typically flows in a linear pattern in these agencies, with it progressing from one department to the next, similar to an assembly line. Each department adds its contribution to the project, then gains internal and client approval before handing it off to the next department, down the line toward the final product. Since departments are split up by the job they do, there is little interaction between departments, except for when the work is handed off. In this siloed model, departments tend to be extremely homogeneous in terms of talent, as likeminded people are hired by the department director for their skills at performing that group's specific role in the process.

In the beginning (mid-twentieth century), this model was a very feasible proposition, as clients had only a few options for how to distribute their message. Agencies only had to offer advertising campaigns in print, radio, and television, and their media departments only had to plan, negotiate, and buy space across a few networks and publications to achieve a wide reach for clients. However, as consumers' media use habits began changing, the media landscape started to fragment, and agencies did not have the staff to execute work across all the possible media channels and disciplines. Agencies started to add departments (either by acquiring a division of other agencies or recruiting talent themselves) piecemeal as clients demanded new services such as

Branded Entertainment departments and CRM units. When clients began to sell their goods overseas, agencies followed them and opened up new branches, until they too were globally distributed. If clients demanded services that an agency could not build in-house quickly, the agency could simply outsource the work to an external company. Today, many digital agencies outsource programming projects to South America, and strategic planners will often outsource their quantitative data analysis to firms in India.

This proliferation of silos within the full-service model was originally considered a success for agencies, because it meant that in their fee compensation model (which will be explained in detail in part two of this report) they could employ more people and therefore charge their clients more. This "organic" growth meant that agencies could increase their revenue without having to do spec work to attract new clients. However, for this model to work well for agencies, they had to play steward to keep all of their units of the business operating. When agencies built in new departments, they had to build in a steady stream of work to keep its P&L in the black.

Shortcomings of the Traditional Silo Model

This is by far the most universally criticized talent organization model in the business. Clients, agencies, and pundits alike have blown it to bits in op-ed pieces in the trade press with the phrase "the model is broken" ringing across the blogosphere. Perhaps to call this model "broken" is harsh; it served the industry well for decades. However, there is no doubt that this model is dangerously outdated and is compromising the relationship between agencies and their clients and failing to encourage holistic communications planning.

The silo model is bureaucratic in its very nature. Each functional silo is given specific duties and is expected to turn out standardized deliverables that serve the agency. Media silos are responsible for producing media plans and purchasing space. Planning silos are responsible for crafting creative briefs and thought pieces. Creative silos are responsible for offering conceptual ideas, usually in the form of ads. This model is carefully designed to divide labor along clear and rigid lines. In many agencies, these silos are not only split by function but also by geography; employees sit in zoned workspaces. The creative department has its own space in the building and the account service department has another. In very large agencies, these spaces can be separated by floors or even time zones. The creative group works out of headquarters in New York while the product placement staff works in Los Angeles so they can be closer to the entertainment industry.

Critics of the silo model contend that this division of labor leads to a division of thought and creates a culture where silos are insular bodies. The leader of the silo recruits talent that is well-trained to perform that silo's function and turn out its deliverables, which explains why a major component of recruitment in siloed agencies is portfolios; directors look to see evidence that the applicant can execute the given deliverables, whether they are creative briefs or radio scripts. The talent base within each silo tends to be homogeneous with groups of employees who similar backgrounds and the same skills. When leaders hire likeminded individuals, it reinforces the culture within the silo. This homogeneity provides a breeding ground for groupthink; when groups are composed of the same kinds of people, dissenting opinions can easily be silenced by normative

pressures (DeLamater & Myers 2007). As the talent and function are demarcated into silos, the organization becomes a collection of territories drawn along lines of thought and responsibility.

> With this system, companies and organizations build fences around their duties. They become territorial in nature and want no part of corporate overlapping. Each territory is protected by departmental managers, who may fear for their jobs.
>
> (Ogden 1998)

The silo model makes it difficult for the agency to benefit from the kind of interdisciplinary thinking that fosters creativity and innovation. In an attempt to counter this unfortunate side effect of the model, some agencies have remixed their organization by seating employees by account team rather than by department. At GSD&M Idea City, the planners, creatives, and media employees on the Air Force account sit in one corner, while the BMW team is in another. At The Richards Group, employees are relocated periodically and seating is random. The agency believes that forcing talent from different disciplines to rub elbows creates a “peaceable kingdom” where people learn from each other and form relationships across silo boundaries.

The division of responsibility is particularly dangerous to full-service agencies who promote their integration capabilities. Industry critics argue that full-service, siloed agencies will never be able to deliver communications planning because their splintered structures prevent holistic thinking. Each silo performs its duty and is responsible only for the success of its own contribution, so when the agency loses a client or a campaign

falls short of expectations, departments are quick to pass blame because after all, each unit did its part. When the agency fails, animosity between groups further separates the silos. According to a 2008 survey conducted by the Association of National Advertisers, clients' primary concern is achieving a truly integrated marketing communications (IMC). Although 74% of firms surveyed reported that they use IMC approaches for most or all of their brands, only 25% rated the quality of their IMC programs ``excellent'' or ``very good" (Liodice 2007). Clients feel that their campaigns are failing to amount to more than the sum of its parts, which is not surprising, considering that agencies create the work in parts.

The silo model can frustrate and limit talent. Creative people like to wear many hats and have the opportunity to work on different projects to engage their varied interests. This kind of talent naturally wants to contribute outside of their silo but often gets shut down because it is "not their job" and the agency already employees other people in that role. Though agencies tout that "an idea can come from anywhere" this notion decries the fact that the idea usually comes from where it is supposed to. This model puts employees into a role that they are expected to work in throughout their careers; talent is expected to perform within the silo and rise up in the organizational hierarchy until they eventually reach its summit. The career ladder is a holdover from the days of "the organization man" when in exchange for company loyalty and paying dues, promising young talent was groomed for the corner office and given rewarded with job security and a handsome pension. Talent is fickle now, and with job security an illusion in a flattening world, employees are quick to abandon their supposed advertising

career paths for other opportunities. Creative talent resists routine and often does not have the patience to faithfully execute the same tasks for years on end. It is such a problem so pervasive that the jaded copywriter who leaves the business to write a TV pilot or the account executive that moves over to the client side for more money and respect are persistent stereotypes.

In an industry that changes rapidly, the bureaucratic nature of the silo model creates a slow process for agency operations. Work is passed off in a linear fashion from one department to the next, and each transition is delayed by red tape. The multi-layered approval process that is inherent in both client and agencies' hierarchical and siloed structure creates time lags between stages and extends the total time it takes to roll out a campaign. Siloed agencies and clients struggle to move quickly, and often fail to capitalize on time-sensitive opportunities because workflow is constantly interrupted by an inefficient review process.

The silo model makes little sense in the modern era, especially considering that most ancillary silos are split by media channel. While the model defines campaign efforts with labels like Corporate Communications, Search Engine Marketing, and In-store display, the consumer audience only thinks about these outputs as the brand. They never refer to communications in these terms when discussing a company or its products. Perhaps agencies and clients could benefit from this freer perspective on marketing.

The Roster Model

The full-service agency model seemed bullet-proof in design, and for a few decades it served the agencies who implemented it well. However, as time went on and clients expected more service disciplines included in their full-service package, it became apparent that agencies simply could not keep up with the demands of a rapidly changing industry. Clients started to adapt the full-service model to their own needs, and instead of relying on one agency, hired multiple agencies to fulfill different needs.

In this modular system, clients typically name one shop as their "agency of record" (AOR). This shop is usually tasked with leading strategic and creative trajectory for the brand, and executing traditional advertising, but lacks the requisite expertise for covering clients in more specialized disciplines. Industry jargon has typically termed these shops as "above the line," (ATL) while agencies that carry out non-advertising functions for the client are considered "below the line" (BTL) (A Jaffe 2003). BTL disciplines include direct marketing, design, search engine marketing, and other highly specialized functions. Clients keep their AOR on retainer, while other shops are often kept "on the roster" and only brought in when relevant project work is needed. For example, if a client wants to set up a microsite that hosts webisodes to promote the launch of a new product, they will likely let their AOR's Creative departments concept and produce (or outsource) the video content, and hire a digital shop to build the microsite. Since this microsite is a one-off assignment, the client will pay the digital shop for their work on that project, and bring the shop back in the next time its services are needed.

In some instances, clients may choose to hire consultants (such as social media consultants or Hispanic marketing consultants) who are experts in their field to advise them on specific business issues. Agencies also function in this modular system occasionally, by contracting a freelancer to step in for extra manpower on projects when client work becomes overwhelming, or the agency lacks capabilities in an area.

Advantages of the Roster Model

This model allows clients to customize their marketing service providers based on their relative needs. If the full-service model is a one-size-fits-all package, the modular roster model is a tailored fit. Things change quickly in the marketing industry, with new disciplines emerging at a rate that is outpacing ad agencies' ability to recruit the right talent. Instead of waiting for a full-service agency to build up a new department (and funding its learning curve), clients can be proactive and bring in the shops that already have experience and credibility in a niche area.

For full-service advertising agencies, the roster model is a defeat, as it means that parts of a client's business (and therefore a potential revenue stream to support a silo) are lost. This model favors small and mid-size agencies who may not have the resources (or even the desire) to go full service. It allows agencies who dominate in an area (such as media, multicultural, or creative boutique agencies) to focus on what they do best and still compete for big brands. These specialized agencies often form collaborative alliances with non-competing agencies, and partner often on projects for clients.

Disadvantages of the Roster Model

The roster model entails a lot more involvement from clients than the full-service model does. This model requires heavy client investment in manpower to manage its agencies, and the more shops a company has on the roster, the more talent it has to staff on its own end to coordinate the disparate tasks being performed on projects, brands, and campaigns across multiple agencies. Before partnering with WPP to create Enfatico, Dell had to manage more than 800 agencies across the globe (Boone 2008). It can be difficult for clients to find agencies with established track records to bring onto a roster, so much so that some clients bring on agency search consultants (firms like Rojek Consulting Group, and Pile & Company) to help them evaluate their agencies, and create a shortlist of new ones to invite into pitches.

This model can be taxing on clients because it requires that agencies put aside their egos and agendas and collaborate on a brand for the good of the client. The political infighting between agencies who all work for the same client is notorious in the advertising industry. To be fair, agencies attract and win new business by earning recognition (awards and otherwise) from the rest of industry, so it is natural for agencies to clamor for "lead status" or credit for the big idea. Besides this, agencies also try to grow themselves organically by increase their share of the client's business. This creates a situation where agencies try to cannibalize projects from their fellow agencies and a distrust between collaborating agencies, especially between ATL and BTL agencies. BTL agencies often complain about being marginalized when it comes to fees and awards credit for a campaign's success.

In addition to the political issues involved with running the roster model, clients have to work hard to prevent financial and organizational inefficiencies across their agencies. When hiring multiple companies to work on a campaign, it is inevitable that clients end up paying redundant markups on their agencies' overhead costs. Agencies also tend to have some overlapping departments as well (particularly on the strategy end), so clients may end up paying for strategy work twice. Repetitive briefings and meetings to organize handoffs from one agency to the next can be more efficiently handled when everything is under one roof at a full-service agency. This model also creates more layers of approval that ideas and work have to go through before running, which can be damaging to the creative process, and discourage experimentation.

Perhaps the biggest disadvantage of this model is the potential for inconsistency in how a brand is sold. Each agency has its own priorities for the work, and projects can tend to get pulled in different directions and ideas spread too thin as each party adds its own contributions. Brand managers have to work extremely hard to keep their agencies focused and united in pursuing a single strategy for the brand. As the old adage goes, when there are too many cooks in the kitchen, the food comes out wrong.

Application of the Roster Model in the Industry

This modular system is the predominant model in the industry, particularly among very large companies with multiple brands and markets to sell in. However, it seems that neither clients nor agencies are particularly happy with it, as it feels like a patchwork approach to marketing. Advertising agencies feel disenfranchised as they watch more and more of their revenue slip out the door to consultants and specialized suppliers, especially

as they have gone through the effort to build those capabilities themselves. Clients are even more dissatisfied with the state of this model because it requires so much work to manage the process. Clients have become siloed as they have tried to organize their marketing departments to oversee their agencies, leading to narrow focus and a lack of big picture understanding of the brand and where it is headed.

It is likely that this model will persist in the industry, but that significant changes will happen to the way clients implement it. It seems that every sector of the marketing industry has complained about the ills of how this model is running, and everyone is looking for new insight into how to streamline the process.

If agencies aim to adapt to a communications planning paradigm in which advertising is no longer the focus of marketers' expenditures, they will have to ramp up their efforts in other disciplines. To do this, many agencies are restructuring their organizations and changing the way they manage and recruit the proper talent. The following section will highlight some of the emerging trends that are reshaping how agencies organize themselves in both the full-service and roster models.

Emerging Models in Full Service Agencies

The Polygamous Marriage Model: Connections Planning in Agencies

Agencies know that the game has changed and that they need to change with it. Though most agencies have tried to evolve within their existing structures, some agencies have examined their silos and attempted to integrate them for better results.

Connections planning is a discipline that is philosophically very similar to communications planning. It is not clear which emerged first, but these two systems

emerged and developed concurrently, and though many argue that they are the same, they have different constituents. Connections planning is a model primarily for advertising agencies that are modifying their existing siloed structure to create an environment that is more conducive to doing communications planning. The term and the discipline were created at Fallon in the late nineties, and was gradually picked up by other agencies (most notably of which is TBWA). Eventually the industry's interest mounted enough that a connections planning conference convened in 2007 in New Orleans to discuss and attempt to define connections planning and how agencies across the marketing services spectrum were applying the model. One of the oft-reported findings of that conference was that in spite of the enthusiasm around the discipline, there is much debate in the advertising industry about what connections planning should be called or how it is defined. What the speakers did agree on in addressing the topic was that the semantics of the movement are far less important than the philosophy and practice of it.

The conference's conception of connections planning as a "polygamous marriage" between the agency's media, creative, and strategic/account planning disciplines emphasizes that connections planning is a talent organization model for agencies to work in a communications planning framework. The connections planning model is designed to integrate the agency's silos to form a balanced union between the agency's media, creative, and planning departments that had previously been separated with very limited interaction between them. Proponents of the connections planning model maintain that in order to create communications programs that resonate with consumers in a media environment that has become exponentially more difficult to

navigate, the three disciplines must collaborate and focus their efforts on understanding the consumer target's behaviors and attitudes. This talent organization model values the contributions of the three disciplines equally, and seeks to create teams that benefit from complementary skill sets and a triangulation of each group's perspectives to create consumer-centric, nontraditional communications. In addition, cross-pollinated teamwork encourages divergent thinking and fosters constructive debate to reduce groupthink, and is strongly associated with creativity in teams (Belsky 2009).

Connections Planning has been implemented in a variety of ways across the industry. Fallon, the pioneering shop that embraced the framework, employs "connection planners" who act as a liaison that pulls together the account planning group's research-based consumer insights, the media group's quantitative understanding of the target's media consumption, and the creative group's idea to optimize existing campaigns or identify new opportunities for branding programs. Many in the industry have given argued that connections planning is simply an evolution of account planning, and have given it the nickname of "account planning for media," much to the chagrin of connections planners who argue that this is an oversimplification of the discipline. Andy Hunter, now an independent strategist who once ran the connections planning effort at GSD&M Idea City, explains the distinction between account and connections planning as such:

> ACCOUNT PLANNERS = the "head and the heart" of consumers who observe what people think, feel, perceive about the world around them and the brands they interact with. They set the tone, defining the "heart of the

matter" for people.

CONNECTIONS PLANNERS = the "eyes, hands, and feet" of consumers, assessing where people go and how they see the world through media (lifestyle, recreational habits), what they are passionate about, how media touchpoints effect purchase decisions, and how it defines their media "persona". They are able to parse out and filter distinct messaging to when it is most relevant in context, time and place that a brand is presented. (2007)

In the same vein, some agencies have named these employees "behavioral planners" because they care more about what the consumer does than what the consumer thinks. To be sure, the title that goes on connection planners' business cards varies widely.

Many agencies have tried to borrow Fallon's connections planning model with limited success. Others have adapted the idea of a polygamous marriage to their own needs. At TAXI, a creative agency based out of Canada, talent is organized into small teams of four (including an art director, copywriter, creative media planner, and strategic planner) that are all briefed together and dispatched to solve specific problems for a client's brand before moved on to the next. Often, multiple teams will work on the same problem so that the talent is spurred by competition and the client gets a variety of approaches to choose from. At Goodby Silverstein & Partners, account and media planners are joined in a Strategy group, and both work together to gather both behavioral and attitudinal consumer insights before briefing creative teams.

In developing a campaign for Adobe and the release of their newest version of their Creative Suite software package (a standard in web, advertising, and design companies all over the world) the strategic partnership between account and media planners at Goodby proved hugely successful. These strategists decided that the best way to encourage adoption of the updated Creative Suite (CS3) was a bottom-up pull strategy that would create a demand for the new version of the software among the people who would most appreciate its added features: the art directors, graphic and web designers who spend hours at work in front of their computers with the product. The strategists suspected that if they could give these creative professionals a chance to try the new features in a meaningful way, they would ask their bosses for the upgrade to CS3.

When conducting ethnographic research to find ways to connect the new Adobe product with the creative professional target, the strategists at Goodby landed on two distinct consumer insights that were both influential to the creation of the campaign idea and the successful launch of the CS3 package. The account planners found in their research that creative professionals are an incredibly competitive bunch that take pride in their skills and are motivated by besting and collecting public recognition from their peers in the field. The media planners found that this group tends to have long periods of idle time while they wait for their work to be approved, particularly after meeting Friday deadlines, during which they troll design blogs looking for tips, inspiration, and camaraderie with the greater creative community. Based on these insights Goodby created the Creative Mind online community for Adobe, which featured a competition called Layer Tennis in which creative professionals could use the new software features

to compete each other in design battle challenges. These tournaments provided a perfect opportunity for creatives to experience the benefit of the new CS3 features during their dead time in a way that fueled their egos and involved them with the community. The campaign was a great example of how collaboration between media and account planning disciplines can create engaging consumer-centric promotions that drive meaningful business results for a client.

Of course, some agencies have never had to reorganize their structures to embrace connections planning. Many small agencies have been functioning this way for a long time, often within a traditional silo model. The critical factor here is scale; small agencies have an easier time fostering collaboration because they have all of their employees under one roof, sitting within reasonable distances from one another. Jay Chiat expressed the issue of scale best when he asked "How big can we get before we get bad?" (Elliott 2009). Like many ad men, Chiat believed that collaboration between different types of talent breeds creativity, which and is essential to the success of an agency. For very large agencies with multiple offices, creative collaboration becomes more difficult, especially considering that large clients often have separate agencies responsible for their media and creative duties. When collaboration has to cross agency lines, projects can quickly become bogged down in political power struggles. For this reason, shops that are successful in applying a connections planning organization model tend to be smaller and independently owned.

Digital agencies also have the connections planning model in their blood. Because the web is far less standardized than traditional media, it is impossible to create an ad or a

website without having a solid understanding of the media environment it will live in. Digital work forces close collaboration between disciplines, especially between designers and programmers (digital creatives) and user experience and information architects (digital strategists).

The success of the connections planning model hinges on the talent and culture of the agency. Without complete cooperation and acceptance of the polygamous marriage philosophy by employees, the agency is likely to revert back to old habits and an attempt to reorganize into this model is doomed to fail. Most connections planners come from a media background because it provides them with knowledge of messaging channels, what purposes each is suited for, and which vendors can serve it, all of which are required in the role. Connections planners must also have a command of secondary research sources and understand consumer behavior so that they can suggest ways to weave brands and their messages into situations when the audience is the most receptive. Because connections planning roles require expertise in many areas, agencies typically like to senior talent with varied backgrounds to fill these positions.

Beyond selective hiring of new talent, agencies must ensure that existing employees are open to collaborating. For this model to work, each of the three disciplines must be willing to fundamentally change the way it works and embrace new relationships with the others. Account planners have to be inclusive and share control over strategy, and media planners must step back from detail-oriented, tactical thinking to a more holistic view. Creative talent must be capable of ideating outside of TV scripts and print ads, as communications planning will require them to execute their ideas in

nontraditional formats. They will have to learn the opportunities and limitations of the various messaging channels and gain a working knowledge of how this work is produced. Creatives that are more familiar with nontraditional channels are a natural fit for working within a connections planning model. Talent from all disciplines must be able to translate an idea across multiple touchpoints to construct a narrative and plan for consumer involvement with the brand. When Fallon created its drumming Gorilla meme for Cadbury, it seeded the movement with the agency's own mashups so that consumers could tell how they were supposed to participate, and then helped them spread their mashups across the web (King 2007).

Above all, a connections planning model cannot be successful unless all parties are given equal authority over projects. When one discipline becomes a dominant influence over the others, the delicate balance is disrupted and the other talent feels disenfranchised and stops contributing in frustration. A collaborative model requires an even playing field where the best ideas win out and can come from anywhere.

A huge caveat with the connections planning model is that clients must be prepared for their agencies to change the way they work. If new talent is required, or projects demand more manpower and involvement from multiple disciplines, the hours add up, and clients may refuse to pay a higher fee. In many cases, clients are built on their own version of a silo model, and their organizational structure prevents their agency partner(s) from being able to collaborate on holisitic plans. Clients who have one person or institution in charge over the entire budget are well-suited for communications planning because they are free to approve projects and give them funding. However,

clients who have their budgets and approval power split into different jurisdictions are not ideally structured for communications planning. Thus, agencies who are considering reorganizing their structure to do this kind of work must make sure that their client roster will be the right fit for a connections planning model.

WPP's Enfatico Model

For some clients, the agency landscape simply does not offer the tools needed to manage and promote a global brand. Prior to 2008 Dell's various divisions worked with 861 agencies in over 60 countries to manage its communications (Boone 2008). Dell's communications had been touched by so many people that it became a common joke at agency conferences and cocktail parties that the one thing everyone in the room had in common was that they had all worked on Dell at some point (and if not, it was only a matter of time). Dell's army of agencies was enormous, and managing the various units was a nightmare. Eventually the brand began to suffer from inconsistencies in the marketplace; a dangerous issue that large brands with multiple agencies often deal with.

Enfatico was borne out of Dell's frustration with the siloed agency model. Dell felt that maintaining so many relationships was exhausting, and that it was impossible to find any one agency network that could service all its needs, particularly their need for advanced analytics tools. They struggled to coordinate the work that came out of its many shops and integrate all of the efforts it was paying for into a cohesive purpose for the brand. The system was extremely inefficient, both financially and in terms of procedures – Dell knew that processes and roles were duplicated across its various agencies, and that its agencies were not working together as the company had hoped.

Enfatico was created by WPP (the world's second-largest holding company for agencies) in an attempt to streamline communications planning for Dell's brand under one agency, and execute and coordinate campaigns for all of Dell's divisions across its global network. Prior to April of this year when the agency was rolled into the Y&R brand, Enfatico had about 800 employees working in 13 offices around the world. The agency structure and core competencies were built from the ground up to tailor its offerings to meet Dell's needs for creativity, efficiency and proof of performance on a global scale (Enfatico 2009). It also housed offices in emerging markets (Singapore, India, Brazil) where Dell's business is expected to grow the most.

Though Dell did put forth some investment in the founding of Enfatico, WPP tried to correct misconceptions that Enfatico was only a Dell agency (Enfatico 2009). The group planned to expand and pursue other clients who share similar needs from their agency partner with Dell and in April 2009 it announced that it come close to winning Vonage had picked up Progress Software as a client just days before announcing bad news (Parekh 2009).

Dell had something every client wants: a custom-built, full-service agency that is equipped to measure its own effectiveness and reduce procedural inefficiencies. WPP had the credit for being the first holding company to execute this new model approach on a grand scale, and hoped that if they could make the model work for Dell, CMOs would be demanding work from Enfatico and growing its billings. But with every revolutionary, utopian model, one never really knows how the ideas will play out. There could be a regime change, or merely blood in the streets.

Enfatico was one agency, and though it operated in multiple locations and involved a lot of employees, it remained one organization that was united under the same goals and the same management. It did not have to wrestle with other agencies to get the clients' attention, or have to engage in battles over home turf or credit. For Dell, this model was streamlined and easier to manage than its previous multi-agency siloed model, and was less bogged down by procedural inefficiencies and personnel redundancies.

Enfatico was also built on the condition that it would be Dell's partner, not its vendor. Though it remains unclear exactly how deep Dell was invested in Enfatico, Dell went through a massive process to untangle itself from its army of 861 agencies, which was probably neither easy nor cheap. After moving all of its holdings into Enfatico's house, it would not want to lug it all out again anytime soon.

Theoretically, the Enfatico model seemed like an ideal situation for both WPP and Dell. However, this model had some serious flaws that could eventually undermined the operation and brought the agency to its knees. Just days after announcing that the agency had won its first non-Dell client, WPP issued a statement that Enfatico would cease to operate as its own agency and be rolled into the Y&R family of brands (Parekh 2009). Critics relished in the schadenfreude, as many across the blogosphere had predicted that the model would fail, especially as long as Dell remained Enfatico's only client and source of revenue.

According to CEO Torrence Boone, Enfatico was the biggest advertising agency startup ever launched in the industry (2008). Most agencies are grown organically on the mission and sweat of a few founders over the course of several years. Companies grow

into their culture as they hire on new employees; it cannot be artificially created overnight. Enfatico had employed several hundred people almost from the beginning, and in the interest of getting the agency running as quickly as possible, a lot of these employees came from Dell's former agencies. Numerous blogs, including George Parker's AdScam, Adomatica, and AgencySpy argued that if Enfatico had any cultural identity, it would be that of Dell, which to creative talent in the industry, is a four-letter word. To be fair, the company website and numerous statements from the agency's CEO stated that building its culture was its top priority. Enfatico struggled to recruit and retain top talent, because not only did it lack cultural identity, it lacked a diverse set of brands for its people to work on. Having multiple projects for multiple clients is one of the primary reasons why creative people prefer working in the agency environment, rather than for clients. Unfortunately for Enfatico, it was quickly dubbed "the Dell factory" by industry pundits, a reputation it never quite shook.

Of course, its downfall was not that simple. Enfatico had tried for the last few quarters to find new business, but with the exception of the Vonage pitch, had produced no named leads as partners for the agency. Any client that could have been brought on next would have walked into an agency that was specifically built for Dell. There is a legitimate concern for prospective clients that as the second account on board, it would always be Enfatico's second priority. The agency also struggled to find accounts that were big enough to need what Enfatico offered. To provide a good fit, a new account would need to be heavily data-based (such as a bank or a technology company that does not compete with Dell), global, and a big spender. As Boone mentioned at University of

Texas at Austin in his 2008 Thought Leadership in Advertising address, many of the accounts Enfatico had been courting were financial services companies, which were being bailed out by the US government and facing insolvency in the recession.

Without other clients, Enfatico's future was predicated on the growth of one brand (Dell) in an unstable economic market. Dell benefitted from this condition; if Enfatico's solutions failed to move product for Dell, it will not survive. For Enfatico, this is a vulnerable position. Most advertising agencies benefit from having multiple accounts to spread their losses against, and the net effect of holding various accounts in different categories serves to buffer the agency against recessionary budget cutbacks that any one client might make. Enfatico had no such cushion in place; it effectively had all its eggs in Dell's basket, and the timing could not be worse. On February 24 this year, news started to spread that Enfatico had laid-off approximately 8% of its employees, mostly from its US offices. This was later confirmed by Enfatico, which chalked the move up to the same economic factors that were forcing all advertising agencies to "restructure" (Enfatico 2009). The advertising pundits hit their blogs to add to the commentary, with some predicting that the agency would not last another six months (Parekh 2009).

In spite of these shortcomings, Enfatico's model remained a compelling proposition for clients like Dell who have massive, complicated internal structures and are disappointed with their agency networks that have failed to improve over the last few years. However, after the agency fell, its viability as a model for agencies is more suspect. It is probable that since Enfatico failed to live up to original expectations, WPP and its competing holding groups will not attempt to recreate this model for other clients.

The upfront capital investment to create a new agency without folding in pieces of existing holdings (other, smaller agencies) is too great.

Trends in the Roster Model

The playing field is leveling and becoming more competitive – hierarchy of agency status is becoming flat as BTL disciplines become more important elements in the marketing mix. Advertising agencies are losing their footing as the default AOR. There are four major trends that are indicating this shift in the marketplace:

Independent communications planning agencies taking hold

Rise of the digital AOR

Increased focus on creating experiences

Free Agency

Independent Communications Planning Agencies

Much of the criticism of advertising agencies and their inability to provide quality communications planning services has been framed around the fact that their structure and business model make them inherently biased toward recommending strategies that favor their own advertising services. In the words of Paul Woolmington (founding partner, Naked), "butchers recommend meat". He would argue that advertising agencies are no different – they recommend advertising and paid media because it is their comfort zone, and their primary source of income, and advertising agencies have limited experience in executing strategies outside of ads.

Independent Communication Planning Agencies (ICPAs) started with the mission to offer clients objective communications planning from experienced strategists

who are experts in consumer culture and communication channels. In this model, clients interact closely with their communications planning agency or consultant as they define and position the brand in the marketplace, study the consumers who relate to the brand, and make strategic recommendations for messaging and channels to better help the client relate to its consumers. This model was born in London with Michaelides & Bednash and Unity being some of the first to form (Taylor 2005, 63), but was quickly borrowed by others and spread throughout Western Europe. Though they cannot take credit for being the first to work in this model, Naked Communications is by far the most prominent name attached to it, and has come to represent the model in the marketing press. While the American market for these agencies is growing quickly, clients in the United States have been slower to adopt this model, as they are comfortable working with the traditionally ad agency model (many clients are siloed themselves) and are traditionally more conservative than their European counterparts. Of all the organizations that do communications planning, these independent groups are by far the most aggressive force in advancing the agenda in the marketing industry.

For those in the advertising agency world, the function of these independent groups sounds eerily familiar, as this is the same role that Account/Strategic Planners are designed to fill. The distinguishing factor that separates Communications Planners (or comms planners, as they're often referred to) and Account Planners in agencies is that the former *only* does strategy, while Account Planners spend a great deal of their time working with their agency's creative department to execute and implement the strategies they recommend. Communications Planning agencies are *only* strategists that focus on

linking the many tactics employed to solve the client's problem and uniting them; they do not execute or produce the work they recommend.

Considering the similarity between these two roles, it comes as no surprise that a lot of the staff at Communications Planning agencies such as Naked and Media Kitchen come from an Account Planning background. However, management at these independent groups is quick to point out that the majority of their employees come from areas outside advertising, as to ensure their organization brings diverse skill-sets and niche expertise in specific consumer groups and media channels to offer their clients. After all, if these companies only hire former agency employees, they are hiring the same mindsets that they actively try to avoid. Typically, these organizations are exceedingly selective when recruiting talent.

Organizations like Naked truly embrace Communications Planning, and have been built from the ground up around its core tenets. In this model, strategies and ideas are formed first, and settled on well before recommendations for communications channels or message executions are made. Because they only provide strategy and are the first to advise clients, these groups can guarantee that creative executions are not leading the communications strategy. As long as these companies are able to keep recruiting talent from outside fields, they will be able to offer cutting-edge knowledge and skills to clients no matter how media evolved over time, which is something that all creative organizations strive for.

The most important competitive advantage these organizations have over others who may attempt to do communications planning (such as advertising agencies, or clients

themselves) is their objectivity. They are not biased butchers who recommend meat. They are more like nutritionists who have the expertise to understand a client's condition, and are free to prescribe a vegetarian diet, if that is what would best serve their patient. Since they do not buy media, they make their channel recommendations based on where the consumers are likely to engage with the brand, rather than where vendors are offering up discounts.

Organizations in this model are not without their shortcomings. Particularly for clients, transitioning from working with a few advertising agencies to working with an independent strategy group as the lead for communications planning is not a simple process. For starters, since the advertising agencies will no longer be providing their strategic input, clients have to renegotiate compensation contracts with their advertising agencies or risk overpaying. Advertising agencies are never happy to lose those duties without a fight, so the emergence of groups such as Naked and Media Kitchen in the US has been met with some hostile territory battles. Though this political friction rarely affects the model, it does make the client's job more difficult to manage. Clients will still be reliant on their existing agencies to execute and implement strategies, so preserving relationships with them through the transition into this new model is a priority.

As clients adopt this model, they are simplifying their communications strategy, but also complicating their daily operations, because the communications planning agency becomes yet another shop on their roster that has to be managed. For clients who are already bogged down with too many agency ties across geographic or market segments, coordinating all their efforts is a real concern.

This model can even be tricky for groups like Naked. The success of their work is judged not only on the quality of the strategy they provide, but also on the quality of the execution of that strategy by a third party, which is something they have little to no control over. By divorcing themselves from the people who produce work and implement strategic recommendations, they lost the oversight privileges to check in with the other side and regulate their output. Independent strategists are essentially architects who draft blueprints to guide their clients' communications, but must leave it to contractors to lay the pipes and build the work. Though both parties are trying to build the same house, they're not necessarily on the same side. Naked has often stated that the strange thing about their model is that though they provide value to their clients, they do not actually make anything.

In spite of the limitations of this model, the marketing communications industry still has a lot of enthusiasm for it. The organizations that use it seem to have no trouble recruiting top talent, and the advertising press continues to hail agencies like them as "the new model" (Vitrano 2008). Naked still dominates these conversations about communications planning in the American market, but as their story of success has spread, others have learned from it, and new companies are being formed in the their image. Naked is also beginning to experience another side-effect of success: losing employees to other companies that are hungry for their talent. Recently, McCann Worldwide hired Faris Yakob, a former "digital ninja" at Naked, to join their board as Chief Technology Officer, so that he can help their traditionally siloed model adapt to communications planning and consumer culture in the digital age. Another former

Naked employee, Noah Brier, has also left his post to contribute his experience in communications planning to a different world.

Digital agencies are gaining AOR status

As the internet continues to transform media consumption habits, clients are increasingly demanding digital capabilities from their agencies and calling for credible experts who have experience navigating new media waters. Though some full-service agencies are in a position to offer such expertise, clients are beginning to move more of their business to digital agencies.

If clients want digital expertise, they need experienced digital talent. Although digital marketing is a relatively young field, there is a crop of talent that has worked in it since the beginning and has seen advertising on the web evolve from the inside out. Experienced digital marketers and technologists have learned from the mistakes of the dotcom bust and crafted the industry standards, making them the most qualified experts the industry has.

Digital talent is a unique breed that spans a range of professions to include program developers, information architects, user experience strategist, web designers, and data analysts. The skills required for these positions are rare in the marketplace and exceedingly in-demand. The marketing industry is not the only one eager to snatch up this valuable talent; technology and government sectors are also actively recruiting it. The rabid demand for this highly specialized talent is not met by an adequate supply; Fast Company is calling it “the digital talent drought” (Sacks 2008). In times of drought, scarce resources become more expensive, and this is no exception. The “feeding frenzy”

has created an environment where technologists are poached from their employers by headhunters and courted with promises of bigger salaries and better opportunities. Digital professionals are not tied to the advertising industry, and frequently jump its boundaries to pursue careers in other fields.

Clients looking for digital expertise are arguably more likely to find it in digital agencies than in traditional full-service shops who typically rout digital talent into their Interactive departments. As some have argued, traditional agencies have lagged in establishing their digital capabilities because their culture and rigid salary caps are not conducive to acquiring and retaining the requisite talent. Digital agencies have the advantage of providing an environment that focuses on digital work, rather than offering it as part of a larger package. Though digital agencies are often just as siloed as their full-service counterparts, their departments are organized by digital disciplines rather than marketing disciplines. If a user-experience (UX) designer has the choice between being the only one on board in a full-service agency and working with a whole UX team at a digital agency, most would choose the latter option because it gives them the chance to collaborate with likeminded people. Digital agencies simply have more experience working in digital than full-service shops; most have been in business longer than full-service interactive departments, and have devoted all of their manpower to digital work, giving them plenty of case studies to leverage in new business pitches.

The rapid changes in how consumers use the internet and the surge in client demand for digital knowledge has elevated the status of digital agencies in the industry

and raised their prominence in the roster model. Razorfish Chairman, Clark Kocich, said the following of the shift in a recent memo to the agency's employees:

> "we have become invaluable trusted advisors to the most senior people within our client organizations. We finally have the 'seat at the table' we've been seeking for so long. So we are sitting on a tremendous opportunity…" (2009)

Clients have started turning to digital agencies for more their services, and some have started to invite digital shops to pitch for AOR status. AKQA, an independent digital shop based out of San Francisco, holds the AOR position for FlipVideo and argues that it is a "harbinger of things to come" (Chang 2009). Digital agencies have been contributing more to the overall strategy and arc of their clients' communications and are earning more respect from the industry. The marketing industry is ceasing to view digital shops as BTL service providers who are bolted on to full-service agencies, and seeing them as stand-alone integral players in communications.

As agencies like R/GA, AKQA, and Razorfish have risen to prominence, trade publications have hailed them as "a new model" (Chang 2009) for digital agencies, but critics argue that these entities are the exception, not the rule. They point out that the majority of digital agencies are still too execution-oriented and lack the strategic mindset that communications planning requires.

While these agencies may be outliers, they excel in part because they have recruited strategists that have experience with branding and communications planning. For example, the Barbarian Group hired Noah Brier, popular blogger and the

aforementioned creator of brandtags.net, as their head of strategic planning (Morrissey 2008). He was formerly a digital strategist at communications planning pioneer shop, Naked Communications. Razorfish employs many strategists who formerly held account planning positions in full-service agencies, and has even expanded its capabilities to include traditional media work. The agency recently produced a promotion for All detergent that aired on broadcast TV and online. About the venture, Marc Lucas, an executive creative director for Razorfish in New York, said "Razorfish has a history in digital media and developing Web sites...In the last 12 to 18 months, we've made a push to be a marketing services company and being more media agnostic " (Morrissey 2009). The shift from digital vendor to strategic partner for these agencies has further "blurred the lines" between digital and traditional agencies (Morrissey 2009).

Increased focus on creating experiences

Though a communications planning approach may be a strong step in the right direction, some argue that it is not a big enough leap to bring marketing and brands into the dramatically different modern world. The way consumers view and learn about brands and products has complicated. New information streams provided by the Internet are challenging the control that marketers once had over how their brands are communicated in the media. Audiences are increasingly placing their trust in consumer-generated reviews online, giving these word of mouth (WOM) sources great influence over their attitudes toward brands and ultimately their decisions. The crowd is drowning out marketers' voices, and their communications are having less of an impact on the way people think about and buy products. The web tore down the wall that existed between

brands and consumers; most of the information people could want about a brand or company is now freely available and the markets are transparent. Companies can no longer hide behind brand promises in an ad, because in a world of ubiquitous information, the truth will come out. In the words of Adrian Ho, one of the founders of Zeus Jones, "it doesn't matter what brands say about themselves, because people don't care. They care about the experiences that they have with companies and products" (Personal communication with Adrian Ho, April 4, 2009).

In recent decades clients have arguably over-spent on communications to market their goods, and tried to solve too many of their problems with advertising and messaging. The high prices of mass-media advertising inflated the cost of promoting a good, and pulled valuable resources away from the other elements of the marketing mix: product, price, and placement. In this new era, marketers can benefit from the Internet and a vocal customer base to "get the word out" and drive awareness for a brand. One blogger put it this way:

> Here's the thing – if your product is good, you don't even need to spend much on advertising anymore because the people who have tried and liked it will spread the word for you. But -- if it's bad, advertising won't work to change people's opinions of the brand anyway. They'll find out about it from unhappy customers. Communication on the web is a blessing and a curse. (Personal communication with Simon Salt, March 28 2009)

If clients can spend less on advertising to promote their products, they can balance out their marketing budgets by shifting funds to other programs like customer service,

research and development of new products and platforms, or wider product distribution. Instead of trying to improve the way they communicate about products, many have stated that marketers would be better off improving the experience around the product itself.

Much like the digital agencies, the companies that work to elevate brand experiences (beyond the limits of communications and media) are growing and gaining in prominence in the marketing world. This crop includes companies that cover the spectrum of marketing service disciplines. To be clear, the shift in the industry toward creating brand experiences over communications is one that is more united by purpose and way of thinking than by one profession, model, or type of organization. The mantra of Zeus Jones, an independent marketing strategy company in Minneapolis, speaks well to underlying "brand utility" philosophy that is fueling this shift: "actions speak louder than words…modern brands are defined by what they do, not what they say" (Zeus 2009). Though experiential marketing is a broad term that covers a multitude of disciplines, the companies that practice it have a common mission: to create positive experiences for their consumers that support the brand.

The landscape of experiential marketing service providers is difficult to navigate because the companies that create theses experiences are dispersed across so many channels and industries, but there are still two broad camps: experience strategists who go through the traditional planning steps to conceive of the idea/solution, and those who execute those ideas and bring them to life. Some companies are able to do both. Strategic services and ideas for programs can come from anywhere: the planners in ad agencies, marketing strategy agencies and consultants, experiential marketing companies and the

clients themselves are generally equipped to provide them. The execution of these ideas is highly specialized and ranges across a myriad of channels, so the ecosystem of brand experiences is heavily weighed in execution-based shops. The trend toward creating and improving brand experiences is manifesting itself in different ways across various disciplines. As clients and agencies look to build useful applications, the demand for Adobe Air programmers has increased. User experience designers and information architects are being roped into website re-design projects more often as clients seek to make their web presence more friendly and easy to interact with. Graphic designers who were once stuck kerning type in ad agencies are moving into packaging and product development on the client side and learning to code so they can design on the web. Account planners have had to adjust their communications briefs and start writing program briefs, user personas, and are spending more of their time figuring out how to mine insights from usability tests to inspire web designers and programmers. While traditionally BTL experiential marketing companies have long been executing ideas for brand experiences, the growth in the field has brought more attention to these companies, and helped them attract more strategic thinkers from other areas, leading to the field becoming more thoughtful and conceptual as a whole.

A strong example of a strategic experience project was one that Zeus Jones and Fantasy Interactive worked on for Nordstrom called The Backroom. In the project, Zeus Jones performed planning duties and crafted the strategy and idea, and Fantasy executed it idea by building the platform.

Nordstrom had begun to sell very high-end designer items in their stores but faced stiff competition in the market. They challenged Zeus Jones to find out how the company could increase their sales volume in the category. The strategists at Zeus Jones went through a research phase where they spoke with Nordstrom sales people in the store to find consumer insights. From their research they gained a strong understanding of the target: cosmopolitan affluent shoppers who spent up to $20,000 a month on fashion and traveled often. These shoppers cared about two things; they wanted the latest designs and they wanted it before anyone else. These customers formed very personal relationships with Nordstrom's sales representatives who provided unparalleled service (in keeping with Nordstrom's brand) to their clientele. Zeus Jones found that the sales staff had gotten into the habit of using their camera phones to photograph new merchandise that came into the store and email it to the customers who they thought would like it. This informal service was helping the sales staff maintain relationships and continue to sell items even when their customers were out of the country (Personal communication with Adrian Ho, April 9, 2009).

Zeus Jones recommended that Nordstrom build a private e-commerce platform to facilitate this activity. As new merchandise arrived, the store would have high-resolution, multi-angle photos of the products taken and stored online where Nordstrom's sales staff could create virtual dressing rooms for each customer and "stock" each room with photos and recommendations. When new designs were ready for them, a customer would receive a notification, and could then access their personal dressing room from anywhere via a secure login. If they liked the products, they could either purchase them on the spot and

have them delivered to an address of their choice or schedule an appointment to view the item in the store. This platform helped Nordstrom build their business in the luxury design market by taking the store's existing services and improving upon them so that their customers had the best shopping experience possible. Though The Backroom cost Nordstrom a sum to build the platform, the venture paid itself off in less than ten weeks with the company's increase in sales (Personal communication with Adrian Ho, April 9, 2009). Unlike an advertising campaign that only works when the client spends the media dollars to run it, The Backroom is a persistent asset to Nordstrom that continues to generate revenue for them. The marketing platform also builds loyalty in its customer base by providing them with a valuable service that fulfills their needs. The project epitomizes Zeus Jones' work in creating consumer-centric solutions that help companies provide a service to their consumers with marketing rather than annoy them with it.

AKQA helped Fiat leverage the acceleration data in their cars' computers to serve the driver relevant statistics about their fuel consumption and how they could reduce it by changing their habits (Chang 2009). R/GA helped Nike build their online community that helps runners stay motivated, find information, and track their progress. Zappos spends no money on advertising and yet they boast one of the highest repeat purchase rates in online retail because it provides 24-hr customer service and free return shipping as services to happy customers who willingly refer their friends to the site for the same pleasant experience (Hsieh 2009). Marketers across categories are presenting case studies in which a company improved their brand experience to find success. Clients are increasingly demanding that their agencies bring relevant new skills to the table.

This shift has been at times uncomfortable. The agencies that do experiential marketing have struggled with significant hurdles in working with clients, especially when it comes to overcoming "the way things are done". Clients who are structured in silos (as many of them are) are typically a greater challenge because they are often unsure how to manage experiential projects. The company might agree that investing in platforms on the web or redesigning their retail environments would be positive for their brand, but because their budgets and authority are compartmentalized, they many not necessarily be in a position to carry out such programs:

> What typically happens is that we tell clients what we do, some say "yes, we totally get it" but most of them say "that's great, but I can't do anything about that with my company because all I have is a budget for running ads" so maybe one out of the ten clients that we talk to actually buys in and is structured to implement it and want to do something. (Personal communication with Adrian Ho, April 9, 2009).

When the client making the decisions it at the top of their organization (as a CMO or CEO) and has the authority to approve and allocate resources to experience projects, the process is much more smooth.

Experience strategists often have difficulties promoting their services and attracting new clients in a crowded market. These companies often have to keep their work secret because it is so intimate to an organization's problems that clients require them to sign tight non-disclosure contracts to protect privileged information. This is quite

unlike advertising where agencies are free to exhibit their work in portfolios because their output is already intended for a public audience.

The arena of experiential marketing is constantly in flux, and as new channels and opportunities open up for clients to pursue, there is a tendency for the industry to focus too much on tactics and executions and not enough on strategy. This vacuum is becoming more apparent, especially as the practice grows. Those who are able to provide sound brand experience strategies, whether from agencies, marketing strategy firms, or independent consultants, will have an advantage over the rest and be able to grow close partner relationships with their clients.

The rise in Free Agency

In recent months the recession has forced agencies to lay off talent in droves. The whole industry is in a pronounced slump, and there are few openings. Holding companies are issuing network-wide hiring freezes and people who are still employed are delaying career moves and clinging to their jobs until they feel more secure. When positions do become available, the competition for them is fierce, as an enormous pool of applicants of qualified people all fight for the open slots. The recession kicked a lot of people to the streets, and most have nowhere to go.

In such times, many marketers turn to freelancing and consulting to support themselves and keep their skills fresh until they economy begins to recover and agencies start hiring again. Freelancing requires very little start-up capital; many jobs in advertising (especially on the creative side) require only sweat, a computer, and the right software to produce a gainful service. Free agents often provide consulting services for

small businesses or design collateral pieces like brochures and simple web pages that can be quickly executed on a project basis. These small clients benefit from having qualified talent working for their brand at reasonable rates.

Few free agents are ever able to pull in enough of these small projects to match the income they made in agency life, but a lucky few manage to earn a living by piecing together many different projects. Some have referred to this as the "gig economy" in which talent of all kinds picks up side projects or freelances (Eidson 2009). For many, this lifestyle is very attractive; free agents greater control over their time and workflow, get to choose the projects that they work on, and have the license to pursue multiple interests and skill sets. Some talent that has been recently laid-off relishes the opportunity to launch their own outfit. If it is successful and they can earn a living income, they may enjoy the liberties that self-employment provides so much that they never return to agencies.

> I've purposefully tried to avoid scaling up to be too big. I don't want to manage a big team and I don't want to have a big agency. I want to make a decent amount of money, but my currency is control over my life and being able to work on what I want. Do a lot of different kinds of projects and then take some time off to spend time with family. It's a pattern I see with a lot of my friends who are freelancers…kind of a reaction to the advertising model that has a lot of bodies doing a lot of work over constrained periods of time. It's stressful and we've all been through that,

and now we just want quality of life. (Personal communication with Andy Hunter, April 5, 2009).

While the advertising industry has benefited from the engines of independent talent for decades, clients and agencies are increasingly turning to free agents for services, particularly those that have specialized capabilities. The marketing and advertising industry as a whole is unpredictable and changes at a staggering rate. When clients need something, they need it done as quickly as possible and agencies hesitate to bring on full-time employees to fit the bill as they are unsure how long there will be work to sustain the payroll. In such uncertain environments, contracting projects out to independent talent is arguably a more practical solution than acquiring new liabilities.

Life for free agents is also improving as the web has brought free tools to the masses. Today, free agents benefit from resources that simply not available in the last recession. These resources help independent talent in four ways:

Be part of a community A fear of those considering the move to self-employment has been isolation. Leaving the comforts of the traditional workplace used to mean losing contacts and friends in the office. Freelancers now have social tools like LinkedIn to help them preserve their network and Twitter to feed them quick updates on what people in the industry are up to. There are communities like the Behance Network where creative professionals can post their work to get feedback and recognition. Though social networks aren't exactly a substitute for the interactions the traditional workplace provides, they are more robust than they used to be, and act as a social lifeline for the self-employed. When virtual community is not enough, freelancers can meetup at Jelly

events, or join the coworking movement, where they can share a collaborative workspace with others while maintaining their independence (Eidson 2009).

Create their own content When talent leaves the established brand of the agency behind, they must create their own, and it can be tough to build a solid reputation from scratch. With publishing now accessible to the masses, free agents have plenty of opportunity to create content and demonstrate their capabilities by starting a blog or a podcast. These tools are leveling the playing field and helping independents build business. Consider the story of Bob Knorpp, a seasoned copywriter who left the agency world to be a consultant. He hosts a weekly podcast about the industry called The BeanCast and has built a social network to bring together fans of his show. The podcast is a way of establishing credibility for his brand and creating content to showcase his thinking. It's helped to humanize his web presence, and generate leads. Knorpp says "I figure, you can tell people what you can do, or you can show them." (Eidson 2009)

Compete for new projects Tools that connect freelancers with prospective clients are exploding on the web. Beyond traditional methods, freelancers can now look for new projects on sites like Elance, Crowdspring and Idea Bounty. These sites cater to different types of independent professionals, but they all carry a common theme: anyone can log on and find a client's problem, compete against others to pitch the best idea and collect a payout if their work is selected. Clients get to crowdsource their briefs and set a firm budget, and free agents get more projects to work on. Even if they don't bring home "the bounty," it's valuable practice that can help creatives keep their skills fresh and build a body of work. Small businesses have embraced using these platforms for collateral

work, and now even BBH Labs is experimenting with the concept by crowdsourcing their logo. These platforms are not without controversy. There was a heated debate at SXSW Interactive about whether crowdsourcing commoditizes design that became one of the most talked about panels at the event (Eidson 2009).

Collaborate and manage projects Freelancers cannot do everything for clients on their own. Eventually, their personal bandwidth gets maxed out, or a project calls for something they cannot deliver and they have to call in reinforcement. Online collaboration tools improving at an astounding rate. More functions are being built into existing platforms, and software companies are fighting to create the "killer app" for managing work in loose, virtual networks. Most of these tools are project management applications that help disparate parties can keep track of all the tasks involved in a given project, the people working on them, and the deadlines and costs for each. Tools like Action Method Online, Basecamp, and Tempo are all examples of such platforms. There are also networks like Blellow [that are designed for freelancers to exchange knowledge and opportunities in real time online (Eidson 2009).

Equipped with these resources, independent talent has begun working together in loose, virtual networks across locations and disciplines. These networks provide a flexible, modular system in which a handful of freelancers assemble for a given project, contribute in their own way, and disperse to return to solo work after it is completed. This model has been described as "band of pirates," a "free agency," and a "tag team."

In this model, each individual owns and manages their business (or does so with a few partners) and typically operates as an LLC or a sole-proprietorship. Each agent has a

network of other freelancers and agencies to call upon in times of need. They form strategic relationships with others as a way to add capability. Free agents often refer to their networks as "the bench" or the "bullpen" – when a different skill is needed for a project they can call in the right talent from the bench to chip in and relieve them. In keeping with this analogy, some of the players on the bench are veterans that the agent has worked with in the past, while others are newer additions to the team that have yet to be tested in the game. In the past, these "benches" were geographically bound, but now with the web's communication and collaboration tools, free agents can continue to work with talent even if they move. The bench can span across the globe if it needs to. Free agents depend on their benches for success.

The ways that free agents work together differs based on situational factors like the scope and size of the project and the talent involved. In some cases, one agent will take the lead on the assignment. They will work with a client, assess what kinds of talent will be needed to get the project rolling and then coordinate the work, including their own contribution:

> What I've done is form some alliances with individuals in the freelance arena and said "Look, I'll play the role of agency – I will give you the work and I will pay you better." I find the client and we pitch it together in very cooperative way – I bill everything through me and take a cut from everyone since I do extra work to sell it through. I bill the client at a higher rate, everyone makes their rate. I try to bill and do everything at an agency level; it's basically a virtual agency where I'll just pull the right

> resources in. It's not like the client pays for bodies that they may or not need like they would at an agency. I bring in the best possible talent for that role and if it doesn't work out I'll just bring someone else in.
>
> (Personal communication with Bob Knorpp, March 29, 2009)

In the above description, Knorpp is a copywriter who also plays the role that an agency would traditionally classify as account service. His model offers clients an efficient agency package that is tailored to their unique project; they pay for the talent that they need, no more.

> Clients have been receptive to that approach, in fact, I've been surprised at how little clients will blink at paying us full agency bill-rates, but they don't care that it's me sitting in my home office. All they care about is having full agency support.
>
> (Personal communication with Bob Knorpp, March 29, 2009)

Clients have indeed started turning to free agency networks of this kind because they can get what they need without paying for the inefficiencies of a traditional agency. Though they still pay the same fee rates (if not higher) for this independent talent's time, they do not have to pay the markup on the agency's overhead. Matt McCutchin, a lecturer at University of Texas at Austin in Advertising moonlights as a freelancer with his old partner from agency monolith DDB Chicago. Together, the two now perform all of the creative duties for Midas, a former $40 million account that DDB resigned (due to its small billings). He described the arrangement like this:

> No account executives or traffic people--we all just get on a conference call with the CMO, and I create scripts on my computer and iPhone, then we get another guy in LA to record them (a guy named Martin Sheen). There is no overhead, no conference rooms or marble lobbies or award-show entry fees or trips to Shutters or Cannes. Just a loose band of ad pirates, disintermediating the hell out of our little portion of this industry. (Personal communication with Matt McCutchin, May 6, 2009)

A talented network of free agents can provide clients with the same level of service that they would pay more for at traditional ad agencies, but this approach is not without its drawbacks. The reason that clients have historically been willing to pay their agencies on retainer is that this compensation scheme eliminates much of the hassle of renegotiating fees and services every time a new project comes up. For clients who have become accustomed to the seamlessness of agency process, the free agency model might be less attractive, as it requires more involvement on their end to manage it.

The free agency model is also complicated by the fact that it requires independent talent and clients alike to carefully screen every individual they work with. The search for qualified freelance talent is especially muddy in a recession because it the market is flooded with people who have no experience freelancing, and unless they come with a solid recommendation, clients are never sure what they will get from a new freelancer. Though there is no shortage of free agents available in a downturn, the availability of quality, experienced independent talent

is scarce. Finding the right fit can be a costly, time-intensive trial-and-error process.

There has been quite a lot of discussion about this free agency model in the advertising industry for years, but now the recession has fanned the argument. There is a large community of experienced professionals who have been liberated (at least temporarily) from the agencies that employed them, and a wide range of resources available to them. If the “gig economy” were ever to come to fruition, the converging factors of a large, qualified pool of talent and technology at their fingertips could be what tips the movement.

PART THREE: AGENCY COMPENSATION MODELS

In order to understand how advertising agencies will adapt to the seismic shifts in media and marketing, one must consider the economics of the agency system. This section will explore the two historical paradigms in advertising agency compensation models, explain some of the issues that have led clients and agencies to call for new models, identify some of the emerging compensation models and discuss their relative merits.

Traditional Compensation Models

The commission-based model

The first advertising agency in America was founded by Volney Palmer in 1850, as the world was adjusting to the Industrial Revolution (Holland 1976) in which manufacturers were producing supplies of their goods at a rate that far outpaced consumer demand for them. Volney Palmer saw an opportunity to create a service

industry that helped companies sell their surplus of goods by promoting them to a wide audience via advertisements placed in mass media. He started purchasing the ad space in newspapers in Philadelphia and other cities in large quantities, and then resold the space to his clients at a higher rate, so that they would not have to buy their own space and deal with the various press outlets. Essentially, Palmer's agency was simply brokering advertising space, and helping his clients leverage the media to distribute their messages and increase the reach and demand of their products.

It wasn't long before others started to open agencies that adopted and expanded on Volney Palmer's commission-based model. The J. Walter Thompson agency (now JWT, globally) and N.W. Ayer both started billing themselves as "full-service" agencies and helping their clients craft and produce their messages by doing the artwork, copywriting and layout of their ads, but even as agencies devoted more of their time and attention to these added production-based services, their revenue still came from the commission they earned on media placements. Other agencies followed suit, as it helped them win new business, and eventually clients came to expect these additional services as part of the package. Until well into the end of the twentieth century, this model of compensation and organization remained the dominant way that advertising agencies functioned and earned income. In this commission-based model, advertising agencies could only increase their revenue by purchasing more media space on behalf of their clients. This proved to be an imperfect system that would increasingly strain the relationship between marketers and the industry built around serving them; as clients were always trying to minimize their media spending, their advertising agencies we

trying maximize their commission by recommending that their clients spend more on media, while minimizing the labor they spent on additional services (like creative development and execution). Clients felt that their agencies were pushing their budgets too high, and started to be more conservative with their spending, which caused agencies to lose revenue while still maintaining their labor costs on creative and other added services.

The labor-based model

The earliest agency business model was about distributing a client's message to an audience, but due to the tension between clients and agencies around compensation, the agency industry evolved to one that focused on creating and producing the client's message.

The labor-based model of compensation is very similar to how corporate law firms earn revenue. Agencies assign their employees to work on a client's business and keep track of the length of time they spend on given projects and charge an elevated hourly rate to the client. Clients may elect to enter into a retainer agreement in which they pay an agency fees upfront for labor to be performed on specific tasks (such as creative concepting or strategy development) over a given period. Should any issue arise for a client that would require these contracted services, they are covered by the agency fee. Most agencies prefer the retainer system, because it helps them secure their work and cash flow, as they earn income before work is completed and can pay employee salaries and cover their overhead. In this system, agencies are most profitable when they employ

a lot of people that can be set to work on client projects, because the more collective time is spent on an assignment, the more revenue they gain from it.

Though the vast majority of clients and agencies are still operating in this model, both sides of the industry see unavoidable problems with it. There are two glaring issues with the labor-based fee model: it establishes economic incentives for clients and agencies that are fundamentally at odds, and time spent is an inaccurate measure for the value of intellectual property.

Clients are financially motivated by two things: sales of their goods and low expenses. In a relationship with their advertising agency, they aim to get the most work possible to fuel an increase in sales while paying as little as they can for it. Agencies, on the other hand, are motivated in almost exactly the opposite way. They want to be paid as much as possible for their work. Though one could argue that agencies are also motivated to keep their clients (and thus should work to keep their clients' sales up), agency profits are not directly dependent on the financial success of their clients. As they were before the fall of the commission model, clients and agencies are still chasing different incentives. Clients want projects done as quickly as possible (so that they can pay less for them and speed up their process) while agencies want to log as many hours as they can on them (so that they can charge more). With these opposite incentives, it is no wonder that client/agency relationships have become increasingly tense and damaged over the last several decades. Clients move their business from agency to agency in a constant effort to minimize their spending, and agencies take on more clients than they can handle in as a way to compensate for lowering their fees. Agencies now feel like

underappreciated vendors who have been commoditized by demanding clients and long for the days when they were considered close partners in business.

As it should be, the model is designed to compensate agencies for their intellectual property, but time spent on an idea is a very poor indicator of its quality. According to Carl Johnson, a principal at Anomaly, the problem with working within the labor-based fee model is simple: "the ad industry is broken because it values crap ideas the same as good ideas" (PSFK New York Conference 2009) This troubles both clients, who pay for an idea regardless of its quality, and agencies who cannot get paid well for ideas that do not take long to execute.

In an address at the 2002 Clio Awards, MT Rainey, CEO of Rainey Kelly Campbell Roalfe/Y&R, said the following about the fee model:

> The legacy that we live with, and the root cause of many of the problems in our industry is this: creative thinking, our best and most valuable product—our "free thinking"—is precisely that. *Free.* We've been giving it away for nothing…Clients have never bought ideas. We have never asked them to—we've never put a price on them… Our business—that is, "the basis on which we make money"—is still related to and correlated with the volume of production of ads and the volume of media expenditures in making and showing them (A Jaffe 2003, 217)

Agencies have never been able to charge for the real value that they provide to their clients, so they charged for the time and effort of the people who worked to create that

value. According to Andy Hunter, “agencies don’t sell ideas, they sell bodies” (Personal communication with Andy Hunter, April 5, 2009).

The trouble with charging clients for the time that it takes to come up with and execute an idea is that time has no bearing on the quality or effectiveness of an idea. A big idea can come in many forms: a film, a microsite, a television spot, a new distribution outlet or even a Craigslisting. When Six Flags asked Ogilvy to come up with a campaign to help them sell a surplus of season passes to their parks, one of the agency’s copywriters quickly put a free ad up on Craigslist, and within a matter of hours, the listing had liquidated all of the passes. Not only had his idea done exactly what the client had asked by selling all of the inventory, it did so without costing the client any unnecessary media or production expenditures and reached the objective much faster than if the agency had created the ad campaign the client had asked for. Because the agency was operating on a fee model, Ogilvy had only negotiated compensation on the idea based on how long it took the writer to accomplish the task of creating the Craigslisting, which was less than one hour (Personal communication with Carla Hendra, July 2008).

Just as an agency can be undercompensated for an idea that produces substantial results for a client’s business, they can just as easily be overcompensated for ideas that go nowhere. Agencies often create costly branding campaigns for products that have little to no measurable impact on the client’s bottom line. The industry has never been good at quantifying its contribution to a client’s success, and now as the effectiveness of advertising becomes even more dubious, clients struggle to understand what their return on investment is on ad campaigns. Television campaigns are extremely expensive; they

require clients to fund both production and media placement of their ad, and yet the audience, equipped with DVR technology, may never see it. Agencies are paid handsomely to concept and create these kinds of campaigns for clients whether it drives sales or not.

Both sides seem to agree that time spent on an idea is a terrible measure of the value of an agency's intellectual property and is even worse as an estimate for how effective an idea will prove in the marketplace. The tension over how clients should pay agencies for their work seems to be at a breaking point. There has been a lot of talk in the trade press about the need for new compensation models in the advertising agency from both sides, and some interesting propositions about how to move forward.

Emerging Compensation Models

The economic downturn has caused clients to study their marketing communications budgets and search for ways to reduce their expenses. As they face their own potential layoffs and organizational restructuring, clients are especially concerned with assessing the value that they get from their agencies. Clients want to slash inefficiencies, and are calling into question the fees that they pay to their agencies in the labor-based compensation model. Despite its shortcomings, this model has stood in place in the advertising industry for decades with very little adjustment. The recession has forced clients to renegotiate their contracts and slash fees to the bone. Their agencies are now lucky to break even. Just because their income has been cut, does not mean the client's expectations have changed. Though the recession did not create the tension that the fee model causes, it has finally put both clients and agencies in a painful enough

position that both sides are now beginning to implement alternative compensation models that can hopefully prove mutually beneficial.

Pay for Performance

Of the various alternative compensation models, the one that has seen the most discussion in the trade press has been the performance-based model. Though this model has been debated for years, clients and agencies are just beginning to experiment with a performance-based model as their primary compensation system. Though this model can be implemented in countless ways, the basic premise is the same: instead of paying agencies for the time they spend on work, clients pay them for the impact that the work makes in the marketplace.

In this model, the client and the agency set a measurable objective (such as traffic to the campaign website, sales growth in a given market, or increased brand awareness) for a project or campaign, and then agree on a system for paying the agency for the extent to which the campaign achieved or surpassed that objective. In the past, this model has been informal and looked like a rewards system. If a campaign over-performed, the client may have given the agency a greater fee budget for future projects, or cut the agency a check as a bonus on top of the fee they paid upfront. Now that this is considered a viable model for agency compensation, clients and agencies are establishing standards for how to evaluate performance and writing them into their contract agreements.

Proctor & Gamble (P&G) has rolled out this model with about a dozen of its brands. In their system, they name one agency the “brand agency leader” or “BAL” and pay them a percentage of the brand’s sales. Agencies that are added to that its roster are

compensated in the labor-based model. P&G has lately been shifting toward a "value-based" based model, as it is notoriously difficult to asses the impact any one agency has, since there are many confounding variables that could contribute to a brand's sales growth (Mullman 2009). This BAL model also only gives the lead agency performance-based rewards, which one could argue devalues or underestimates the contribution that supporting agencies made to the brand's sales.

Coca Cola (Coke) recently announced that after having tested their own performance-based model with their agencies in five markets, they will be implementing it across their agency roster with hopes of completing this transition by 2011. In their system, Coke's marketing department, rather than the agencies, decide how valuable an assignment is and how much time and resources should be devoted to it. Coke determines this value by weighing "factors such as the work's strategic importance, the talent involved, and whether other agencies could duplicate the work." Coke promises to cover the costs that the agency incurs over the course of the project (labor, resources specific to the project), but its agencies will not make a profit unless the work performs in the marketplace. This model is high risk, high reward for Coke's agencies. If they can meet or exceed Coke's measured performance expectations, they can earn up to a 30% profit margin, but if they fail to meet those targets, they will make less, and possibly no profit at all (Mullman 2009).

This model helps to align the financial incentives of the client and agency side marketers, and neutralize some of the long-running grudges over the labor-based fee model. With Coke's model (and others who are establishing the performance-based

model) agencies must think about the effectiveness of proposed programs because their profit depends on it. Both sides are pursuing the same thing: results in the marketplace. While clients have pursued sales and market share throughout the history of marketing, agencies under the commission-based model tried to get their clients to spend more on media or have drawn out the length and scope of projects under the labor-based fee model. Performance-based models put the agency's priority back where clients want it: on the brand's bottom line. Though many from the agency side have been fierce opponents of this model, others are eager to take advantage of it. If agencies are liberated from the labor-based fee model, they can earn a high income without necessarily having to spend a lot of time on a project, and be rewarded for the quick ideas and fixes that they perform on behalf of clients that normally do not add much to their fee.

Though the performance-based model does help to unite clients and agencies under a common goal, it has a major caveat: the whole system is dependent on accurate measurement of agencies' performance against the established objectives. As with the measurement of any dependent variable (sales) in a complex system (in this case, the marketplace), it can be incredibly difficult to isolate independent variables (ads, media placement, agencies) and assess the extent to which they influence an outcome. For clients who have multiple agency relationships that attempt to move toward a performance-based model, it will be a significant challenge to evaluate these agencies as separate entities.

The industry (clients in particular) have been calling for better metrics for decades, constantly searching for a way to track the impact of each marketing program

they implement to sales. That perfect measurement system has yet to be developed, and some critics would argue that consumer behavior is so complex that marketers will never be able to pin down the factors that influenced a purchase without finding a way to collect data that consumers would not be willing to give up. The FCC has already expressed privacy concerns over the practice of behavioral targeting of ads online, which runs on that very data. The measurement system that the industry operates on now is incredibly flawed. Third parties like Nielsen and Arbitron are struggling to update their methodologies to be able to track audience viewership of ads, let alone measure the influence that viewing an ad from one agency before seeing a banner ad created by another agency might have on an individual’s purchase decision. Though clients may attempt to piece together different data sets (their sales figures, reporting from vendors, original survey research) to try to identify the source of changes in their business results, there is quite a lot of room for error in interpreting the data. Even in disciplines like online display and search advertising where data is plentiful, the commonly-used metrics are operationally unsound. The effectiveness of online display ads are typically measured in click-through rates (CTR), which marketers on both sides agree to be a poor metric, as a click does not equate to an impression or an engagement with the site visitor. Beyond the doubt cast by a Click Forensics study estimating click fraud at 17.1% (Quick 2009), measurement in search is problematic, since it is often the last point of interaction that consumers have as they look for more information about a product they intend to buy. Many argue that clients over-attribute the success of a campaign to the search marketers because their performance metrics inherently benefit from other campaign efforts that led

the consumer to search for the product. In a performance-based model, to the last click goes the spoils. If this model fails, it will likely be due to issues of validity in performance measurement.

This model also biases agencies toward short-term solutions, as it is unclear how clients will pay for the incremental success of a program over time. Agencies have often been frustrated that clients are too quick to dismiss a campaign that does not produce immediate results. They argue that a campaign's performance is a reflection not only of the agency, but of the client who gives it the green light. If an agency recommends a creative approach and is shot down by the client in a multi-layered approval process, it often has to come up with a more conservative campaign that may not produce the same impact as their original concept. Agencies are not solely responsible for their success; it also hinges on the willingness of clients to experiment with untested methods and fund nontraditional ideas.

The clients who have adopted this model so far have primarily been global companies that have the resources to collect and analyze the requisite information to evaluate their agencies' performance. It can be extremely expensive for clients to run quantitative studies and field data, and many mid-size and small clients will probably not be able to afford this on their own. While it is possible that a third party performance measurement provider could eventually serve these capabilities, it will definitely be a few years until this becomes available. It is probable that small agencies and clients will wait to see how this model pans out for giants like P&G and Coke before restructuring or investing in performance tracking.

In spite of concerns with defining, measuring and evaluating performance, it is likely that this model is going to continue to gain traction among large companies, and even fuel new developments to improve the current metrics system as research institutions clamor to satisfy the industry's heightened demand. Now that major global clients like Coke, Unilever, and P&G have cracked open the territory, other marketers will likely follow suit, and agencies will have to adapt their own business models to compete. It is highly likely that the agencies who have the most experience with quantifying their value and contribution to communications' success (chiefly digital and media agencies) will excel in performance-based compensation models, while creative and full-service agencies may fail to catch up to this trend quickly enough to stay in business. If this model sees established standards and financial success from its pioneers, it will rapidly become the industry standard agency compensation model.

Agency Ventures

Just like their clients, agencies are scrutinizing their own balance sheets. The labor-based fee model has not been kind to them in recent months, as cash-strapped clients are demanding the same services while subsequently shrinking the fees that they are willing to pay for them. A few shops have done the math to see that the business that they are in – one of selling the manpower to execute ideas – is not going to sustain them even after the economy recovers. They see the writing on the wall: as advertising becomes a less important fixture in the marketing mix and billings become scarce, they will have to generate new revenue streams or layoff talent in droves until they become a shadow of their former selves.

London-based agency Bartle Bogle Hegarty (BBH) is one such shop that has created new income for its organization. In 2008, it opened a brand invention arm called Zag that analyzes market categories, identifies vacancies, and then develops a product that can capitalize on those opportunities. Though Zag is a standalone unit, it is fully funded by BBH, and brings revenue back to the agency by either licensing or selling its new brand designs to third parties in return for a share of ongoing sales revenues (Hamilton 2006). The arrangement is mutually beneficial: BBH gains competency in developing and managing a product portfolio, and Zag benefits from BBH's legacy for leveraging consumer insight to build brands and establish their competitive advantage in market. Zag helps foster an entrepreneurial spirit at BBH and innovate in areas where consumer behavior is outpacing what's available on the market.

To give an example, Zag recently developed the Ila Dusk personal security alarm after noticing that women had limited, unattractive options when shopping for a way to protect themselves from assault. Personal security alarms were characteristically clunky devices that were inconvenient to access from a purse in the event of an attack, and ugliness across the category was a turn-off to stylish urban women. Because these poorly designed devices made women feel paranoid and self-conscious when walking alone, their owners did not carry them, which completely defeated the utility of the product. The category lacked a brand that could appeal to what the market's biggest target preferred in a personal security alarm. Based on these insights, Zag developed an effective personal security alarm that women could attach to the strap of their purses for easy access, with a female-friendly product design that made it look more a sleek mobile phone than a

scream machine. With Ila, women could conveniently carry a discrete alarm to provide peace of mind that did not come at the expense of good style. Following a warm reception from the press, Ila sold out of stock before it hit the market (Andersen 2009).

While BBH, Trumpet, and a few other agencies have seen new product ventures as a way to add a new revenue stream, most are still rooted in the advertising business. Anomaly, a shop based in New York that was founded by ex-agency professionals who wanted to leave old models in the past, has been in this venture business from the beginning. In addition to entering into joint ventures with existing brands (which will be explained under the next section), Anomaly has also created a few products of their own, including ShopText, a mobile e-commerce platform that allows consumers to purchase items with their phones by texting a unique code they see in an advertisement for a given product. Anomaly also sells their own line of shaving cream and skincare products for women called eos at Target, Shoppers Drug Mart and drugstore.com (Anomaly 2009).

Agencies that have tried this approach to compensation have argued that there are three keys to success in this arena: rapid prototyping, embracing failure, and staffing a motivated talent base that covers diverse disciplines (PSFK New York Conference 2009).

Rapid prototyping is essential to the success of agency ventures. When developing a new product, agencies typically do not have the luxury of time or resources to carefully roll out a launch or test and retest a concept. They must work like mad men to get the product ready as quickly as possible, often in a race to be the first to get the idea to market. For example, when one of BBH's planners had an idea to start a blog to cover Michelle Obama's wardrobe (an area of rabid interest not yet met by fashion

journalism), Zag gave her seed funding to make her idea a reality, and Mrs-O.org was born within weeks. Due to the time sensitivity of the idea (the election was near) and the fact that any with a WordPress account could launch the same concept first, getting the content up on a running platform was critical. At the 2009 PSFK conference, a panel of agency leaders from Anomaly, Trumpet, Zag, and fuseproject agreed that if an idea cannot be executed quickly, it is not worth pursuing (PSFK New York Conference 2009).

To go along with rapid prototyping, these agencies encourage rapid failure. Typically, they can only afford to give these projects very little start-up capital, which means that if an idea fails early on, the game is over. The leadership at these agencies live by the mantra of "fail faster". They argue that the faster an idea fails, the faster they can move onto pursuing the next idea, and the less costly it is to the organization. They would rather abandon the project and learn from the mistakes they made than pour precious funds into a venture that seems doomed.

When creating a new brand from scratch, there is a learning curve that agencies must adapt to. Agencies who embark on these ventures quickly find that their talent base is often inadequate and has to train their employees in areas that are unfamiliar or bring on new hires. Branding the product is one thing, but launching one requires product designers, lawyers, and marketers who have experience with distribution strategy. In many cases, agencies will take the idea for a product that came from and employee within the agency and contract out some of the other duties rather than bring on full-time specialty talent.

Though this model has been profitable for many small, independent agencies, it is unlikely that large, full-service agencies that are owned by holding companies will be able to duplicate success in this model. Agencies that are held by companies like Omnicom and Publicis have to pay a large portion of their profits back to the empire, which leaves them little extra funds to invest in such ventures. These holding companies also hold great authority over their agencies' operating budgets, and aim to run a tight ship. These publically traded holding companies are in a troubled state in the recession, and with risk-averse shareholders overseeing their balance sheets, the likelihood that they would support a shop's attempt to launch its own product line is quite slim. Working within this agency venture model requires that the players have a high tolerance of risk, an entrepreneurial spirit, and a level of comfort with uncertainty and failure, none of which are supported in the holding company environment.

Intellectual Property Ownership and Licensing

The advertising industry is littered with stories of shops that pitched a big idea to a client that eventually became a huge success in the marketplace, though the agency received only a paltry sum for it. The Nike Swoosh logo, now one of the most recognized brand symbols in the world, was created by a college student who was initially paid a total of 35 dollars (at a rate of two dollars per hour) for the design (she also eventually received a certificate from company founder Phil Knight and an envelope containing Nike stock)(Origin 2009). JWT Chicago once pitched an idea for a cheese and crackers snack product called Lunchables to longtime client Kraft, which continues to sell millions of dollars worth of the product even after they left JWT in 2007 (Ross 2009). JWT

Chicago never received a check for the Lunchables idea (it covered by the agency fee) and is now out of business. The value of an idea is really determined in hindsight.

For decades agencies have been creating brand value and fueling sales for their clients, yet only getting paid for the time they put in upfront. When an idea pays off so well that a client runs on it for years, the agency that created it may feel like it has been shortchanged, especially if the client takes the idea to another agency to continue the campaign. There is a growing movement among agencies to protect their intellectual property and earn a greater stake in the success of their ideas.

A number of methods for IP compensation have emerged as agencies and clients try to break out of the fee model. Some agencies, including Anomaly, have developed a system in which they partner with existing brands on joint ventures and create new products that extend their reach in the marketplace. As compensation, they negotiate an equity stake in those products and get paid a fixed percentage of the profit that the venture brings in. That way, the more successful the idea is, the more money the agency (and the client) make on the deal. One of Anomaly's first projects was working with Eric Ripert, chef and owner of the world-renowned Le Bernadin restaurant in New York. To help him grow his brand as a celebrity chef, they created Avec Eric. The venture includes producing a television series on PBS, web community, and line of cookbooks. In a similar venture, they recently announced a partnership with Lauren Luke, a single mother who became the second most viewed YouTube user in the UK by posting video tutorials that demonstrated how to apply celebrity makeup looks. Anomaly is helping Lauren launch her own global cosmetics line (Anomaly 2009).

This equity stake/revenue sharing proposition only works when a brand is first launched, either as an extension of an existing product line or as a startup. Clients who use ad agencies to promote brands that are already on the market are unlikely to enter into these kinds of agreements because the client footed all the investment in researching and developing the product. This approach is only viable when the agency can be involved in the process from the beginning and takes an active role in creating the brand position and concept. Small agencies and consultants have been compensated in this model most often, as they are more likely to invest the manpower upfront to get fledgling brands off the ground. Trumpet, a brand studio based in New Orleans, regularly partners with start-up businesses to help them develop their brands in exchange for equity stakes. They are currently working with Naked Pizza in this fashion (PSFK New York Conference 2009)

Perhaps the largest and most visible agency that occasionally works in this model is Crispin Porter & Bogusky. In partnership with Burger King, the shop has created promotional products to help the chain merchandize its brand and sell more products. The agency helped Burger King produce a series of Xbox video games featuring such character icons as the Subservient Chicken and the King. They also created a "seductive" Whopper-scented cologne called Flame.

Another way that agencies could take hold of their IP is by owning and licensing the rights to their ideas. Rather than charging a client for a tagline based on how long it took the agency to come up with it, some have proposed that agencies should own the tagline's trademark and get paid in royalties for each time the client features it in its communications. While this model made sense for the music industry, it could be

problematic to implement it in advertising. Selling an idea requires that the agency present it to a client, and there is nothing to prevent the client from taking the idea elsewhere. Agencies lament that clients often do this in pitch situations; they field ideas from a number of agencies and then have the winning agency execute their favorite ideas, leaving the shop that originally came up with it no recourse. For this model to work, agencies would have to draft the rights to every idea they come up with, which would be impossible, as shops often run through hundreds of ideas on a given project. Though the idea of licensing has come up as a recommended alternative compensation model, there is little evidence to support that it could ever be a viable system.

Tiered Fee

Another way in which agencies are altering their compensation plan is by splitting up their fees into tiers. By charging clients for each stage in the communications process separately, agencies can have greater control over which of their work is most valuable.

Rainey Kelly Campbell Roalfe/Y&R (RKCR) is one agency that has restructured their fee system in such a fashion. They have implemented a three-phase process in developing work for their clients and established a different compensation plan for each phase. In the first phase, the agency charges by the hour (at a markup) to investigate the brand problem, conduct research, and provide the client with a situational analysis of the market and where the brand has opportunities for growth. After this phase, clients can choose to go into the next phase, during which the agency crafts a strategic idea for the client. This second phase is the often the most expensive, as RKCR charges a hefty price for their ideas. If the client likes the idea, they can either choose to continue with RKCR

to execute the strategy in phase three or move onto another agency. If the client decides to stay with RKCR, the agency charges a flat hourly fee for the production, without a markup. The agency likes this model because it allows them to focus most of their energy on the phase where they see the greatest profit: the strategy and idea of the communications. Because they charge separately for these services, the agency does not suffer if the client chooses to go elsewhere to have the ideas produced. According to Andrew Jaffe who profiled the RKCR's compensation scheme in *Casting for Big Ideas*, the shop's approach forces clients to pay a higher premium for conceptual creative thinking than for ordinary executional creative thinking, brings the agency back up to partner status with their clients, and also allows the shop to profit most from their strategic ideas, which is where they excel (33).

Another shop that has created approach to this model is Zeus Jones, a strategic marketing agency in Minneapolis. The agency has a strong background in research and planning, as two of its founding members were former planning directors at Fallon. Zeus Jones believes so strongly in the value of their strategic concepting that they peg their fee for these initial services to the rate of a full page ad in the Wall Street Journal. They tell their clients that the brand will be better off in they invest in strong research and positioning rather than in paid media (Personal communication with Adrian Ho, April 4, 2009). While Zeus Jones sometimes creates marketing programs based on the strategic idea for their clients, these services are contracted and paid for separately.

This model has not received as much attention in the press as the performance-based or agency venture models, but it may prove to be one of the most practical

approaches to improving agency compensation. It is simple, flexible, and works within the industry's existing framework. It may be a stretch to convince both clients and agencies to overhaul their compensation models, but a transition into a tiered fee model would benefit agencies by helping them place a greater value on their intellectual property.

PART FOUR: CONCLUSION

"Bonfire of the Certainties"

The industry has posed suggestions for how to advance advertising agency business models for the last decade. At conferences held by the AAAAs and other national organizations, agency professionals would gather to discuss ways to organize their talent to promote a creative culture and which compensation models that would allow them to get paid for their ideas. Clients would call for greater ROI accountability from their agencies, more precise metrics and models that would allow them to pay their agencies only for the results they generated. Both sides talked about how to take advantage of new online opportunities and the importance of integrating the communications of brands across channels in a micro media world. The trade press also weighed in on the topic along with bloggers who were more than willing to chip in their own two cents. There has been no shortage of understanding that the business would eventually need to reevaluate its purpose and adapt its outdated practices for rapidly changing world.

Yet for all the talk about fixing broken models, busting inefficient silos and correcting unfair compensation, little has changed. Though some pockets of the industry

have taken great strides toward progress in these areas, most agencies are still working the same way they did fifty years ago. The lack of innovation in the field has not been for lack of consideration, but rather because the amount of energy required to overhaul the industry and the risk involved in doing so were huge. The industry stayed in the same model because *inertia* kept it there. An object at rest will always remain at rest until an exogenous force acts upon it and sets it in motion. As Taylor argued, the disruptive technology of the Internet would transform the world of communication and in doing so uproot the advertising industry, but until a cataclysm forced innovation and flushed the agency business of its excesses, things would continue without change. Joseph Jaffe put it another way: “Status quo prevails. That which is part of the agency's bread and butter trumps the experimental delicacies” (2009). Inertia and the fear of failure have kept the industry firmly in place; as long as the health of the organization was not immediately threatened by emergency, there was no cause for alarm. In her address to students at the 2009 AdWakening conference about the future of advertising, Liz Ross, former CEO of Tribal DDB, compared advertising agencies to a frog in a French chef’s pot; the water has been getting hotter and hotter for years, but never so painful that the frog sensed danger and jumped out – before much longer, the frog will be boiled alive and make delicious frog legs for dinner.

The global recession has suddenly imposed grave crisis on clients and their agencies. Though marketers foresaw some of the ways the web would affect advertising, they did not see economic disaster coming. It has hit their finances like a perfect storm, devastating talent and structures in its path. JWT Chicago and Circuit City will not be the

last casualties; more companies will succumb to credit crunches, turn off the lights, and walk away from their offices for the last time. Others will survive, but a full recovery will be a long and painful process. Traditional ad agencies will continue to lose clients who are looking to cut costs. They will struggle to get them back and return to their original size and status in the marketing industry—displaced by other disciplines and marketing service providers. After multiple rounds of layoffs, most cannot possibly run any leaner on talent than they are:

> Seems all the big agencies are getting smaller. Though some still attempt to spin layoffs as opportunities to cut fat, everyone knows they've cut the fat, cut the muscle and are scraping bone. If I were a client, I'd wonder how my big agency justifies charging a premium for services and resources while at the same time cutting back on services and resources. Fewer and fewer people are doing more and more and they are stretched to a breaking point. Yet, the biggest complaint isn't about longer hours, it's about keeping up the quality of work in an environment that's all about getting it done, making the meeting, living to fight another day and surviving… If I were a client, I'd also wonder whether my business is really getting the senior talent and attention it deserves… I'd ask whether I really need a big agency in the first place.
>
> (Landsberg 2009)

Without adequate talent on projects, agencies will struggle to defend their fees, and many will see them shrink in contract renegotiations with clients, or lose them altogether when

the clients try to cut costs and give their business to smaller outfits with less overhead. Midas did just that when they handed creative duties over to two freelancers (Halliday 2009).

For all its destruction, some are hopeful about the outcome of the recession and have even argued that it is "the best thing that could have happened to the industry because it will make us change." Wreckage brings the unique opportunity of a blank slate. After the storm has cleared, agencies and clients alike will rebuild with renewed purpose in alternative models. Agencies may be more willing to enter into performance-based compensation agreements; though it implies greater risk if an idea fails, it also implies less liability because they can staff less salaried talent. Clients looking for true communications planning may be willing to pay a premium for quality strategy if agencies stop giving it away for free. The business is in a "bonfire of the certainties" – as old methods fail, companies will become desperate and experiment with new models, processes, and ideas in a bid to find a better way.

There has been much speculation about the future of the advertising industry including both hopeful proposals for how agencies can change to triumphantly forge ahead and doomsday countdown clocks to their total demise. It remains to be seen how agencies will emerge from the recession, but there have been predictions about which traits will separate those that will survive from those that will crumble:

Focus away from advertising Not to belabor the point, the message here is simple: advertising is becoming less effective and practical as a solution for marketers' problems. Clients are now demanding non-traditional programs over traditional advertising and the

lines are blurring between former ATL and BTL distinctions. Traditional shops are losing their position at the top of the marketing services food chain, and the more they can demonstrate the ability to offer ideas outside of traditional media formats, the more they will be able to compete on a leveling playing field. The companies that will be most successful in the future will be those that can prove a track record in creating engaging experiences around brand and/or connecting and linking together consumer-centric, multi-channel marketing plans.

Speed At the 2009 AdWakening Conference held by University of Texas at Austin, Grant Richards stated: *"*success of agencies in the future will be depend on the speed at which they deploy their troops." The Internet has sped up the communications process, and marketers are increasingly looking for ways to develop solid strategy and ideas to produce quickly. Clients are especially demanding faster turnaround on projects as they aim to reduce fees.

To respond to this demand some agencies are trying to reform their workflow processes. One approach has been shifting from a linear approach in which projects are passed from one department to the next to a parallel processing model where teams work concurrently throughout each stage, minimizing the amount of time that departments "wait on the work" to come through from others.

Flexibility Agencies that are able to rearrange models and talent for given projects will win out. "Nimble" shops will be able to quickly identify and dispatch the right resources (from within the agency, other companies, or independent free agents) for a client and adjust their models for the task at hand. Smaller agencies tend to have more

malleable structure and will have a natural advantage here.

T-shaped talent For many years agencies have been calling for t-shaped talent; individuals who have broad general knowledge to bring to the table but also deep and narrow specialized skills. Those agencies that are able to attract and retain quality t-shaped talent (especially of the digital persuasion) will be able to create cross-pollinated teams that bring diverse perspectives to the same problem and minimize duplication of skill sets while maximizing creative thinking.

Implications for Advertising Education

The shifts in the organizational structure of agencies is causing a lot of pain in the advertising industry, not only for those who are directly employed (or formerly employed) by agencies, but also for the students and educators who prepare them for future careers on Madison Avenue. Advertising education will also need to adapt to a media and marketing industry in flux, as it represents the talent pipeline that will fuel and sustain the agencies of the future.

Advertising education is not without its own outdated ways of doing things. In fact, there are countless parallels between the way universities (or schools in general) and agencies are structured. Like agencies and their clients, these universities are fashioned on an archaic silo model where departments are kept mostly separate, with different leadership, missions, and resources governing each unit. Like agencies, universities have seen departments splinter into narrow subspecialties when faculty and students chase a niche in an increasingly fragmented field of study in an effort to claim expertise. As with

agencies and their clients, this model operates on a bottom-heavy staffing platform, wherein a few senior members dominate and have authority over a mass of scantily-paid junior employees who are eager to contribute to the system and eventually reach a "tenured" position of security at the top of the heap. Like the advertising business, the rigor in academia is stressful and fiercely competitive, and attrition is high. Due to many organizational levels (and therefore multiple layers of approval processes) change is slow and incremental at best in universities. Given these parallels between the ad industry and the institutions that supply its talent, it is not difficult to see why advertising and marketing education has also remained stable over the past 50 years and seen little innovation.

Historically, educators who sought direction on how to best teach advertising and prepare students for careers in the field would go to the source, and still do. They find out what agencies and clients hire for in candidates for specific job descriptions, and what the different functions require in terms of basic skills sets and competencies. Professors encourage alumni who have careers in the industry to speak on campus and keep them abreast of trends in the business. Departments develop some of their curricula in coursework to help students learn skills that agencies prize, and assign projects that put students to work on the same tasks that agencies and clients perform on a regular basis such as drafting media plans, writing creative briefs, and presenting campaign recommendations. These true-to-life courses are designed to help students "hit the ground running" when they enter the workforce. Agencies especially love this arrangement, because it provides them with a direct pipeline of junior talent that is so capable of

performing the duties of the job that they can virtually eliminate much of their recruitment and training programs (and their associated expenses).

As agencies began to specialize, they sought out graduates who had an avid interest in the various specific roles, their relevant skills, and experience working in them as often as possible. Agencies and universities partnered to create symbiotic internship programs that gave students the opportunity to gain that experience by working for course credit (at almost no cost to the university) in an agency or client's marketing department. Many universities started to offer tracks or concentrations within the advertising major that allowed students to use their elective course hours to focus their learning on one of the disciplines that existed in agencies. When things changed in the industry, departments followed suit by adding or modifying existing courses for students. However, due to the asynchronous nature of the speed at which universities can implement change and the rate at which the agency business demanded new competencies from incoming talent, advertising education has lagged behind the industry curve over the last several years.

Now that the future of advertising and marketing industry is in great chaos (much of which can be attributed to an over-specialized and fragmented silo model) young aspiring advertisers who have been created in its image face unprecedented challenges. Before their careers have even begun, they are narrowly trained for a job function in an industry that may not have a future, even after the economy has returned to normal. Conservative estimates of the layoff toll indicate that the ad agency business has recently lost 32,656 jobs (Edwards 2009). That is what some have politely called an involuntary

“exodus of talent” from the industry and what the brutally honest have called an apocalyptic “bloodbath” (Jaffe 2009). Regardless of the words used to describe this current situation, the system is overburdened and clogged with a surplus of specialized talent, and there simply is not room for any more. The drain is overflowing, and excess talent is spilling into new areas. Unemployed talent across the business is being forced to consider other options.

The talent catastrophe that has hit the industry has great and severe implications for the schools that have invested in creating specialized students. Like agencies’ silos, the infrastructure in place that separates and categorizes students and courses based on future job function (once an asset to the institution) now poses a very real threat to its health. These programs, like agencies, must bust apart their silos to become more relevant to the future of the marketing communications industry.

Recommendations for educators moving forward:

- Train students to be T-shaped specialist generalists with a combination of broad knowledge and niche expertise in some areas. The way marketers are hiring now is changing as they try to minimize inefficient talent overlap – instead of looking for a “perfect planner” or a “perfect creative” they are re looking for the right one for the job; a complementary team member who offers something different.
- Rebrand, or at least de-emphasize the word “advertising” – the title of the program is more than just semantics. As employers shift their focus away from advertising, they are looking for broader talent, and some are actively avoiding

"classically trained advertisers" for fear that their narrow focus will prevent them from bringing outside skills/thinking to the organization.

- Reassess curriculum. Continue to teach high-level principles of marketing, and spend less time training in niches – leave it to students to take the initiative to learn shiny new technologies and software on their own. Enable students to use school resources to hold workshops or mini-conferences where they can teach each other these things and share knowledge.
- Broaden the scope to include other disciplines and spend more time talking about other marketing communications disciplines besides advertising. Help students find new ways to apply their skills.
- Encourage more interdisciplinary study – loosen up degree requirements and reduce barriers to course enrollment so that students can have access to a broader range of learning and develop a more flexible program of study by participating in courses offered by other departments. For example, University of Texas at Austin offers Information Architecture and User Experience classes, but since they are housed within the School of Information, ad students are unaware of their existence.
- Create more joint ventures with companies (not just agencies). Universities should continue to bring in guest speakers and foster on the job learning via internship programs but broaden these partnerships to include other industries that use similar skills. In addition, faculty can help companies understand and benefit from research that they perform at universities. Currently the professional

and academic worlds are split down the middle; though they both work in parallels within the same field, they rarely interact much. Academic theory and research and the practice of commercial communications could both benefit from symbiotic collaboration and shared knowledge.

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