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Why clients need agility in today's 24/7 world

// How's it going? // I asked the CEO of a consumer goods company.

// Nothing that another 100 basis points of topline growth couldn't solve, // was his blunt response

Swallows and albatrosses

By Sir Martin Sorrell

First, an historical perspective...

Since the global financial crisis, fast-moving consumer goods companies have become accustomed to moving their goods a little slower; annual revenue growth targets have been revised down from 7% or so pre-crisis to just half that a decade later. Interest rates continue to bounce along the bottom, and there's no sign of runaway inflation making a comeback anytime soon. Which explains why, with little power to raise prices, the marketing departments of the biggest fmcg companies have spent much of the past decade focusing on cost.

Procurement has been enjoying a golden age, the pinnacle of which was the invention, or some say reinvention, of zero-based budgeting (ZBB) at 3G and Coty, for example. When it came to marketing spend, everything was on the table, at least until Unilever slapped down Kraft's takeover bid in 2017. Since then, ZBB has been increasingly challenged, and the old adage that you can't cut your way to growth has come back into favour.

The rise of digital advertising platforms, meanwhile, provided an unexpected setback for the CMO. Back in 2016, marketing was still hoping that going online would mean going over the heads of the retail leviathans and give access to a rich seam of consumer data. In the event, the walls of the walled gardens grew higher, and Google, Facebook and Amazon turned out to be the new Walmart, Carrefour and Tesco.

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Taking back control

Little surprise then, that clients, taking a leaf out of the Brexit campaign, decided to Take Back Control. We've seen that with the move by consumer goods companies into Direct to Consumer (D2C), which started with Unilever's acquisition of Dollar Shave Club. Nestlé bought licensing rights to Starbucks because Amazon wouldn't give them access to their customer data. It's even happening in the automotive sector. At CES I saw a company called ZeroLight that's been working with automobile makers and Amazon Web Services to create an intelligent showcase whereby you can customise your car on your iPad – you can select the colour, the trim, order it, you can almost drive it. It could lead to the death of car dealerships. What D2C gives brands is the direct relationship with the consumer – and real customer data delivered 24/7, that can be used to drive content.

At S4Capital we recognised the value of first-party data from the outset; it's part of our Holy Trinity alongside digital content and programmatic media. For clients, taking back control also means doing business with their marketing partners in a different way. The old approach of outsourcing left their own resources denuded and too much in the hands of the agency. Now clients are experimenting with new models like in-housing and embedding. In Silicon Valley, our company Firewood has 75 people in Mountain View just across the freeway from Google. They can't be on the campus for security reasons, but they're at Google's beck and call.

It's a two-speed world

Marketing spend now has a fast lane and a slow lane. Digital is growing globally at 20% per annum. Traditional media is shrinking at 2-3%. That's why we are purely in digital marketing. The total pie is worth around $1.8 trillion, with $550-600 billion in media, about $500 billion in marketing services like PR, data, market research, and about $700 billion in trade budgets. We are focused on the first and second of those segments. Globally, around 50% is now digital so that leaves half still to go. At some point it will slow down and we will have to think about the challenges of becoming an analogue company too – there are some areas of media with a lot of potential, such as VR, AR, AI and even digital outdoor – but that won't be for some time. At the moment we are in the sweet spot, growing at 45% organically. Our challenge is supply not demand, whereas the legacy agencies are all in the polar opposite position – they have no problem with supply, but they don't have the demand. Clients can broadly be divided into the disruptors and the disrupted, and it's a very different conversation you have with each of them. ▸

Swallows and albatrosses continued

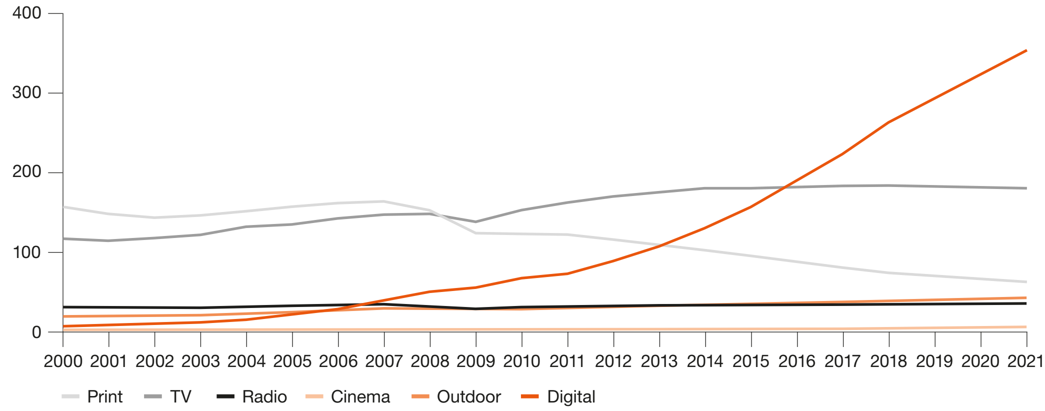
Media spend by category 2000-2021 $bn

Total media spend $640bn[1]

Digital media spend $293bn[1]

Total marketing spend $1.9trn[2]

Trade marketing spend $518bn[3]

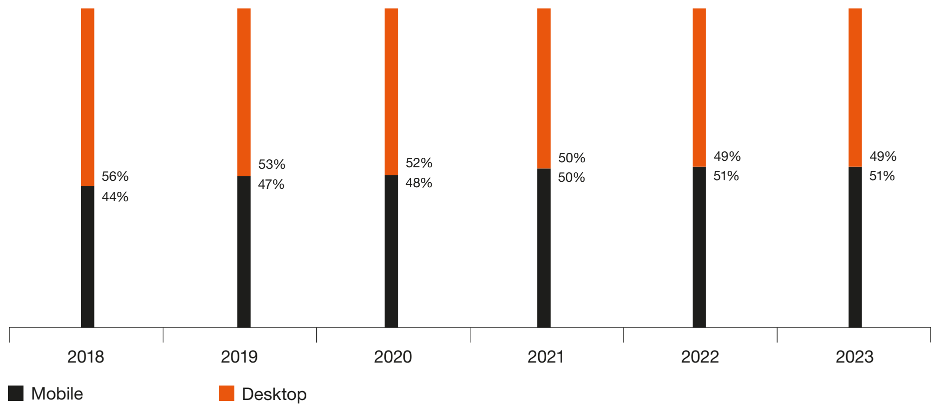


Source: Zenith Optimedia 2019

[1]Zenith Optimedia 2019, [2]GroupM TYNY 2019, [3]Alix Partners 2019

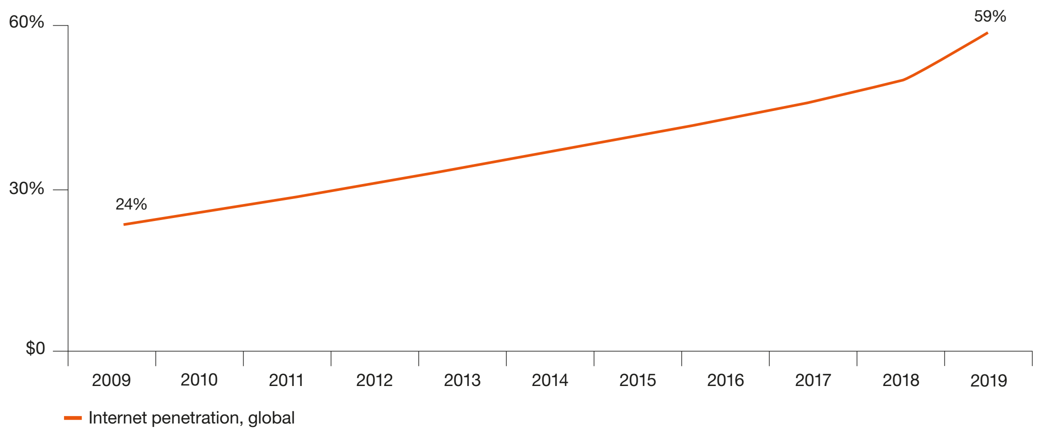
Mobile set to outpace desktop ad spending by 2022

Global desktop/mobile ad spending distribution forecast by platform



Source: Statista Digital Market Outlook

Internet penetration



Sources: Bond; Statista

Traditional is a zero sum game

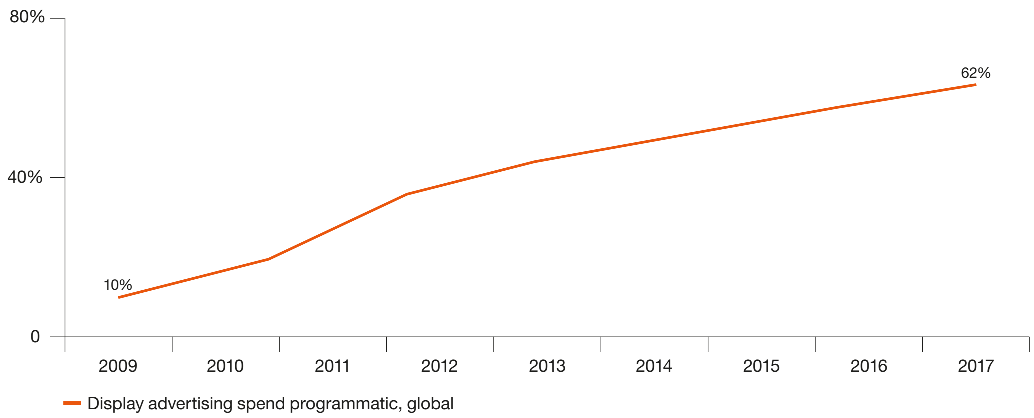
Traditional and digital advertising are living in different paradigms. In the former, you have those giant tentpole campaigns like the Super Bowl, the Oscars and the Olympics, and the client periodically holds a pitch in which everything is thrown up for grabs. It can take 10 months, and during that time, if you are the incumbent you have to defend and run a pitch team, while the attacker is only looking for incremental revenues, so they can afford to discount. That's why the holding companies that do best in the new business tables do worst at organic growth, and vice versa. The agency has become the meat in the sandwich between client and media; and pitches have become a feast for procurement in which the agency is forced to give price guarantees, inflation guarantees and offer zero cost options. In short, it's a zero sum game.

In our world of digital-only, it's a completely different scenario. Everything moves so quickly it's like being at the heart of a political election campaign. You're putting out messages, evaluating the response, then reforming it. Data informs the content, which informs the media buy. In the old days, the creatives had a gut feel, came up with an idea and then, like Don Draper, they went to the client to flog it. Today, we're working with the client in a continuous loop of personalisation at scale. And instead of big pitches, it's all about 'land and expand'. You get in on a project, you win more work on the strength of your performance. You co-locate, you embed.

Beware of albatrosses

No one wants an albatross around their neck. If you remember, that's what happened to the Ancient Mariner when the wind stopped blowing and the ship came to a halt. Now all six holding companies have lost the wind from their sails. They're all moving towards the one firm model, at different speeds, but that means getting rid of the agency brands that they're famous for and it's not an easy thing to do. Their traditional advertising revenue is shrinking, and their digital revenue is growing, but they can't reflect that. If traditional media is going down by 2-3% and digital is going up by 20%, do you think the creative directors, account handlers or strategists on the traditional side are saying I'll cut my salary by 2-3% each year? Or on the digital side, they are being paid 20% more? This is exactly what happened with media. Creative was dominant, media was below the salt. Media started growing faster, but the rewards all went to the creative people, and in the end the media people left and started their own operations. The holding companies can't make the changes they need to make under the spotlight of being a public company, so they'll either have to go private or be broken up.

Programmatic buying % of global digital display advertising



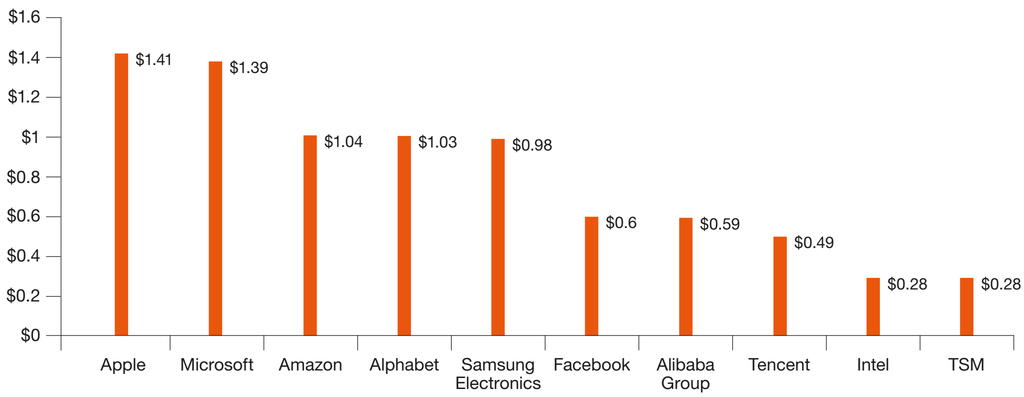
Source: Bond

Swallows and albatrosses continued

The platforms are getting stronger

Google has announced that it's going to stop collecting third-party cookie data, in response to GDPR and other privacy concerns. But if you thought that was going to check Google, think again; if anything, it's going to make them stronger. It's going to take a couple of years to happen, and nobody knows the exact implications. Probably a number of publishers will go to the wall, and probably Google will lose some revenues, but relatively it will be more powerful because the data pool has shrunk and so Google's proportion of it will have grown. The Seven Sisters – Amazon, Apple, Facebook, Google and Microsoft, as well as Alibaba and Tencent – show no sign of slowing down. ByteDance and its social media site TikTok threaten to break out from the following pack – perhaps it's time for the Eight Immortals? Will they all be allowed to keep growing or will pressure grow to break them up? Apple and Microsoft are each worth around $1.4 trillion. When Lloyd Blankfein at Goldman was asked who the first $2 trillion company would be, he's said to have remarked "there won't be one because no nation state would allow it." We'll see. In advertising terms, Google has about $160 billion of ad revenues. Facebook has about $65 billion, Amazon $15-20 billion and ByteDance has $20 billion of which TikTok is $7 billion – but that's come from nothing.

Top technology stocks by market cap February 2020 $trn



Source: INN

// For brands, Amazon is rapidly becoming a head-on competitor as well as a marketing partner //

Why the future's streaming

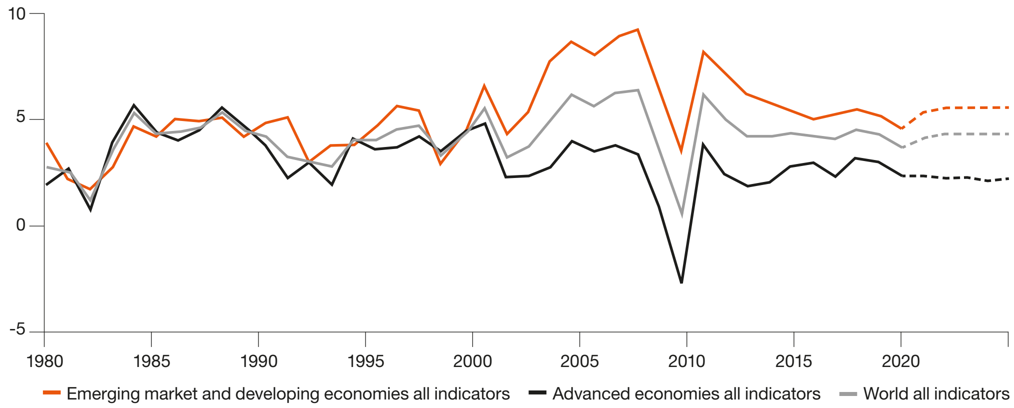
Linear TV viewing is inevitably in decline. I was on a panel at CES with Bill Koenigsberg of Horizon, and he predicted viewing in some day parts will fall by 40-45% over the next 24 months. I was staggered by that and I said are you sure, but he said yes. My own view is it won't be as precipitous as newspapers or magazines, but it is going to happen. Streaming is currently generating around $12 billion from subscriptions – led by Netflix – and around $3 billion from advertising through the likes of Hulu and Roku so there's a big opportunity for advertising, especially with new services like Apple TV and Disney Plus coming in at a lower price point. And you also have this new short-form film platform Quibi, which has people like Steven Spielberg on board and has raised over $1 billion and has first-season sponsorship of $150 million. My view is, Netflix will move to a bipolar model. You'll have one option where you get no advertising and pay more. Or a second option, where you take advertising and you pay less. To my mind that is where they should go. Radio and audio is also going to become a lot more important – not least because it can be used in cars, and it will become even more valuable in autonomous cars.

Look out or Amazon will eat your lunch

For brands, Amazon is rapidly becoming a head-on competitor as well as a marketing partner. We were pitching for some business at a major spirits company and when we were briefed on the Monday, they asked us "what's your view on Amazon?" We said you've got to watch out, they are going to be highly competitive. The next day, I went to Amazon to see Simon Morris, their global creative director. As I walked in, I looked at my phone and it said Amazon is going to launch its own premium gin. There have been plenty of other examples. They came up with a lookalike to the Allbirds shoe at half the price. And they took on all the cosmetics houses with the Lady Gaga makeup line, sold exclusively on Amazon. Are they a threat to brands? Jeff Bezos supposedly says: "Your margin, my opportunity." Or, as the ex-CMO of a major fmcg puts it: "If Amazon hasn't copied your business model it's because you don't have a good one." ▶

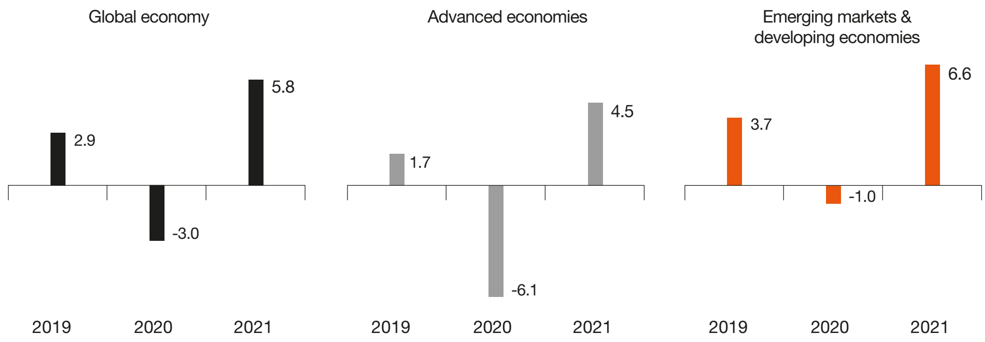
Swallows and albatrosses continued

Real GDP growth annual % change (before covid-19)



Source: Zenith Optimedia 2019

Real GDP growth annual % change Impact of covid-19 on economic activity



Source: IMF, World Economic Outlook, April 2020

America's on the rise

It's a decade since Goldman Sachs coined the BRICs to identify the most important emerging markets for economic growth, followed by the CIVETS, the Next 11 and other groupings. We don't talk about them as emerging markets anymore but they are still to varying degrees among the most powerful engines of growth in our industry. China has slowed down but it was, pre-covid-19, still growing at 5-6%, which is a lot better than 2-3% in the West. And it now has a $14 trillion economy, so 5-6% growth has a much greater impact than 10% growth in a much smaller economy. I was watching the hedge fund guru Ray Dalio on TV and he said we'd all love to grow at that rate. If there's one thing that's changed, it's that America has become more important again. Whatever you think about Trump, he's been good for business, and the influence of Silicon Valley also makes the US much more important. We also see a lot of potential in Latin America, where we've recently been joined by Circus. What I like about LatAm is two things: there's more inflation so clients have more wiggle room and more pricing power; and both the creative and tech talent are superb.

Feeling fit?

If you ask today's CMOs what keeps them awake at night, they'll tell you it's the lack of agility in their organisation, the inability to break out of those moribund processes of global account reviews, 10 month-long pitches and ponderous creative development. The smartest – often themselves the disruptors – have found another way that's quick, efficient and intelligent, while building for the long term – not the average five-year lifespan of the CEO. To do that, they need marketing partners who are on the same wavelength – quick, nimble, streamlined and seldom to be found at rest. Not so much the ungainly albatross, perhaps, as the sprightly swallow.