Ad Industry Chaos
How Did We Get Here?

By Mark McLaughlin

The digital era has been a two-decade arc of rapid change for marketers, agencies and media companies. Intentional and logical change has produced unintended consequences that have been hard to manage.

Insidious change reached an inflection point in 2015 and 2016. A shockingly large number of media agency reviews by big marketers plus the two reports produced by the Association of National Advertisers (ANA)—Intelligence Report on Media Transparency and Media Transparency: Prescriptions, Principles, and Processes for Marketers—confirmed that the old media-agency-as-middle-man model needs to evolve quickly.

This is the first of two articles that address one of the most important line items in an enterprise's budget—advertising. This article explains how the advertising industry lost its way in the digital era. The second article, A New Paradigm for Media Investment Strategy, provides a new paradigm for managing this budget with strategic certainty.
Intentional Change Begins: 1995-2005

From 1995 to 2005, three independent changes occurred in plain sight, but their intersection would not be apparent for quite some time.

1 **Agencies changed** Media departments unbundled from the full-service agencies to become independent companies with their own P&L. The holding company business model grew exponentially because of their desire to own media agencies.

2 **Corporations changed** Virtually every major corporation with an advertising budget evolved to where financial managers (procurement) had a stronger and more hands-on roll in the agency review process and the agency contract negotiation process. As procurement executives came to understand what media agencies were, they got much closer to the practice of buying media for the best price.

3 **Consumers changed** The growth of the internet profoundly impacted the way that people think about brands and behave as consumers. The internet started changing how media was consumed and how products and services were purchased simultaneously—and the pace of both changes accelerated with each passing year.

Insidious Changes Emerge: 2006-2016

The three strategically intentional changes evolved independently in the first decade of the digital era. In the second decade, these changes would prove to be deeply intertwined and that had consequences that were unforeseen. The second decade of the digital era would see all of the following items come to bear.

- Financial managers observed that media planning and media buying were sourced from the same third-party provider. That violated a basic conflict-of-interest principle. The principle is that “third-party providers cannot be both the doctor and the pharmacy,” but that problem laid dormant until it exploded in 2015.

- C-Suite executives at the unbundled media agencies realized that growth in buying assignments scaled very profitably while growth in strategic assignments required lots of additional (and very expensive) senior executives to be added to staff. Buying services offered better profit margins than strategic consulting.

- Procurement executives and media agency directors were locked into very intense contract negotiations but, without realizing it at the time, both sides were ready to compromise resources for media planning (communications strategy). Strategic services eroded quickly without too much thought about the implications.

  - This can be confusing because the job title “media planner” remains pervasive at media agencies, especially digital agencies. But what was once a job that required years of experience and the benefit of sophisticated training programs devolved into what is now, more or less, an entry-level position.
• In 2006, broadband passed 50 percent of USA homes and Google published the Chubby white paper. The internet that marketers and media agencies thought they were preparing for from 1995 to 2005 would now explode outside of the previously imagined boundaries.

• Internet ad inventory supply and potential reach grew at a stunning pace. Big scale and cheap prices turned the lowly “banner” ad unit into a game changer for direct response advertising.

• The headlines suggested that we were looking at “the end of advertising” and “the death of TV” but the revenue sources that drove explosive growth for digital advertising were sourced from direct mail, yellow pages, classified ads in newspapers, and telemarketing budgets.

• Digital media agencies grew dramatically but did not understand their role. The top executives were digitally sophisticated but they were marketing novices. They thought they were brand builders but they were actually direct response optimizers.

  □ For example, the CEO of Digitas liked to say “we are reinventing brand advertising,” even though Digitas was the new, hipper name for Bronner Slosberg Humphrey—a legendary direct response agency.

### 2015 and 2016

The original idea was that unbundled media agencies could be a rock of stability that made it easier for marketers to shop for new creative resources without disrupting complex media buying services. Media complexity had become so critical and complex that switching agencies in pursuit of new creative was risky. Unbundling fixed that and for quite a while media agency assignments were stable and reviewed infrequently. That blew up starting in early 2015.

The year began with the big holding companies thinking it was business as usual but by June, Maurice Lévy had coined the term “reviewmaggedon” and Sir Martin Sorrell called it “mediapalooza,” as they grappled to explain the stunning level of media agency reviews that were kicking into gear simultaneously.

Procter & Gamble, L’Oreal, Johnson & Johnson, Visa, Sony, Volkswagen, Microsoft, Coca-Cola, Century 21, Unilever, American Airlines, 20th Century Fox, Bose, Citi, BMW, GlaxoSmithKline, Coty, SC Johnson, CVS, and General Mills conducted media agency reviews in the early waves of 2015. They would be followed by Hewlett Packard, Amazon, AB InBev, Walmart, Mattel, JC Penney, Target, Mondelez, AT&T, MillerCoors, Under Armour, and Walgreens Boots Alliance.

By then, it was apparent that we were not watching a strange, but temporary, event; we were observing what insidious change looks like when it reaches an inflection point. A sea change had occurred and the status quo was disrupted.
Two of the most co-dependent industry organizations throughout the history of advertising went to war with each other in the trade press. The ANA was representing angry constituents and the American Association of Advertising Agencies (4A’s) was crying foul and neither was keeping this behind closed doors as they did in the past.

The obvious and easiest trigger for these reviews were the holding company trading desks like Vivaki, Xaxis, and Cadreon, but that was the tip of the iceberg. In June 2016, the ANA released the K2 media transparency report and the problems were now out in the open. This report revealed just how ugly the situation was and it became clear to the industry that the wave of agency reviews was not an outlier, it was a sea-change.

In May 2016, just before the K2 report was published, a speech at the ANA Financial Management Conference that was barely covered by the trade media succinctly explained what the problem really was:

“It is about conflict of interest in a double-sided business model. So, agencies cannot switch to transparency on a per-client basis. They should decide between being doctors or pharmacists. Today, they are both. Because so much money is at stake, clients are understandably risk averse.”

In its wisdom, the ANA anticipated that defining the problem would not be sufficient. On the heels of the KR report, the ANA published a critical document detailing how advertisers should move forward, Media Transparency: Prescriptions, Principles, and Processes for Advertisers. While much of the report is about better contracts, auditing and transparency tactics, a bigger message surfaces, which is that the advertiser needs to take more responsibility for strategy. There are two bold headlines in the report:

- “Advertisers should take ownership of data and exert control over the media technology used on their behalf.”
- “Advertisers’ media planning decisions should be guided by a range of research and data sets which are transparently sourced and are understood by advertisers.”

Obviously, this has not been an easy era for the marketing departments of the major advertisers and yet the burden of responsibility for long term change on the other side of the inflection point fell right into their laps.

The Marketer’s Dilemma

Notably, all of the changes described above barely mention the CMO or the marketing department, even though they were in the eye of the hurricane. Whereas the CMO position was originally conceived as a long-term investment to keep the company focused on growth strategies grounded in consumer insights, the turnover at the CMO position fell below 24 months during this 20-year period of insidious change.

Marketers need a new way forward that rebuilds strategic best practices that have been lost while adapting to the modern dynamics of siloed agency services and the digitally empowered consumer. The second article in this series, A New Paradigm for Media Investment Strategy, provides the path forward.
ABOUT THE AUTHOR

Mark McLaughlin understands advertising value from the point-of-view of the stakeholder and their customers. He has two decades experience in media, advertising and digital strategies. Working with dozens of Fortune 500 companies in every major field from politics to packaged goods, Mark is recognized for treating advertising as an investment in brand equity and sales returns.

Mark’s career developed at ad agencies where he was one of the first senior agency executives to re-think strategy in the context of digitally empowered consumers. This led to roles as a founder of the first company to focus on "rich media" and to positions as the top executive running digital agencies. Before starting his own consultancy, Mark worked at Yahoo! from 2004 to 2008 positioning the company as a strategic partner for ad agencies and the 100 Leading National Advertisers.

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