

# Back to Mad Men

## What the Future Holds for Ad Agencies

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Digital Brief  
004



*LUMA Partners presents Digital Brief 004: Back to Mad Men. Mad Men recently finished its seven season run and no TV show has ever captured the hearts and minds of the inner workings of Madison Ave. Or at least how it was. Much has changed in the agency world since then and that change is accelerating with the growing presence of data and software into the mix. This change poses significant, if not existential, strategic challenges to agencies.*

# The Making of the Holding Company

Marketers

Creative Agency

BBDO CP+B droga McCANN ■R/GA SAATCHI & SAATCHI Wieden Kennedy+



*Let's remember how the current Agency Holding company structure came about. First there were large and small creative agencies that specialized in coming up with strategy, copy and art for ad campaigns. Let's call that the Mad Men era.*

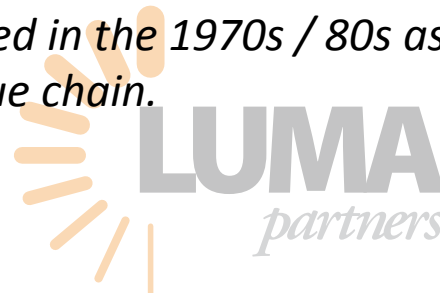


# The Making of the Holding Company

Marketers



*Then Media Agencies were formed in the 1970s / 80s as that became an increasingly important component of the value chain.*



# The Making of the Holding Company

## Marketers



*Finally, in the 1980s / 90s we saw the formation of Agency Holding Companies that aggregated media buying, maintained multiple agency networks to manage client conflicts and manage finances. There are more components like PR, research and other services. This was the case for 20+ years even as data became more important and digital gained share.*

# The Broader Marketing Ecosystem

## Marketers

### Ad Tech



### Holding Company



### Creative Agency



### Media Agency



### Retailers



### Publishers



### Tech Services



### Marketing Tech



### Data Marketing



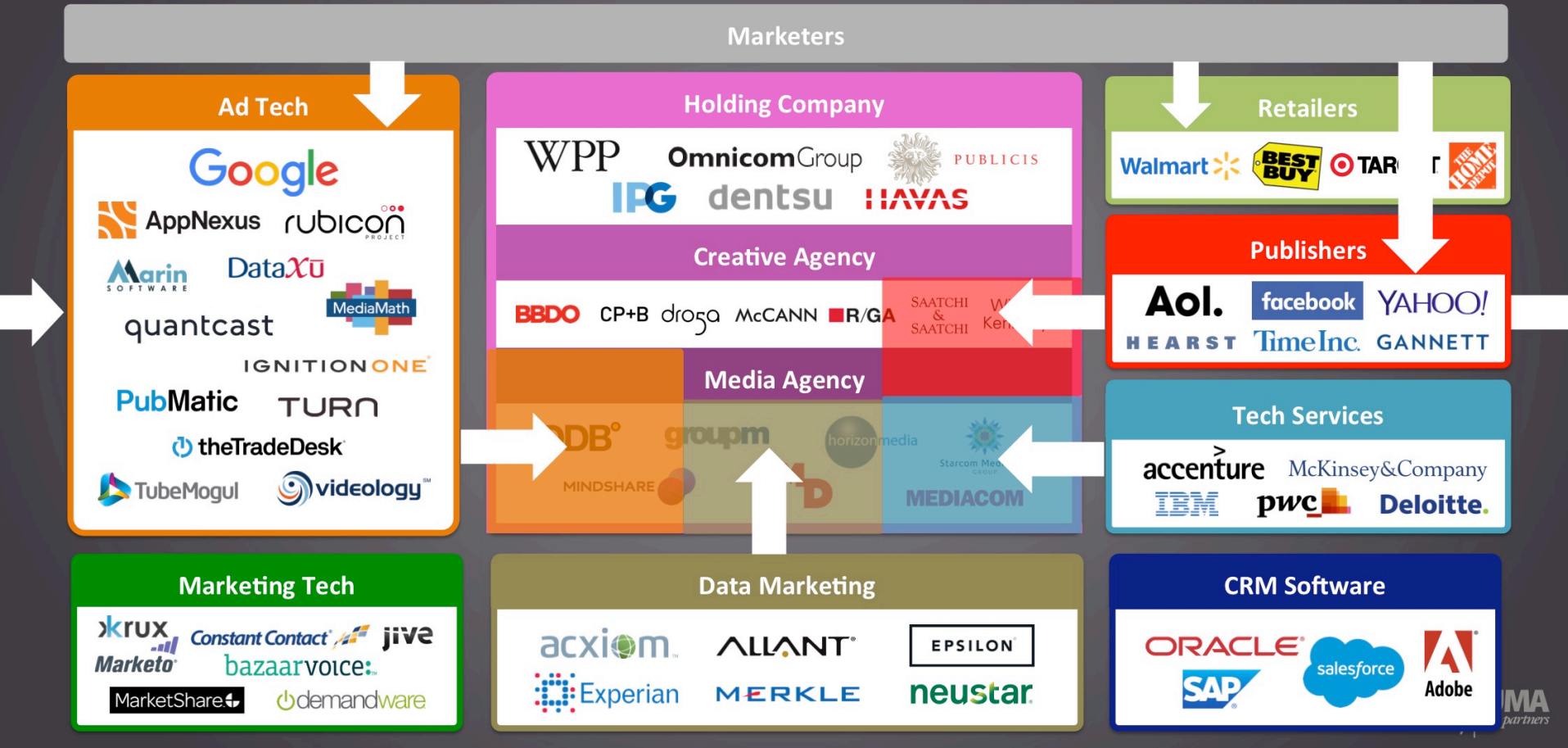
### CRM Software



*But today agencies are no longer alone in the marketing ecosystem. The broader ecosystem now includes companies in Ad Tech, Marketing Technology, Data Marketing, CRM Software, Tech Services, Publishers, and Retailers.*

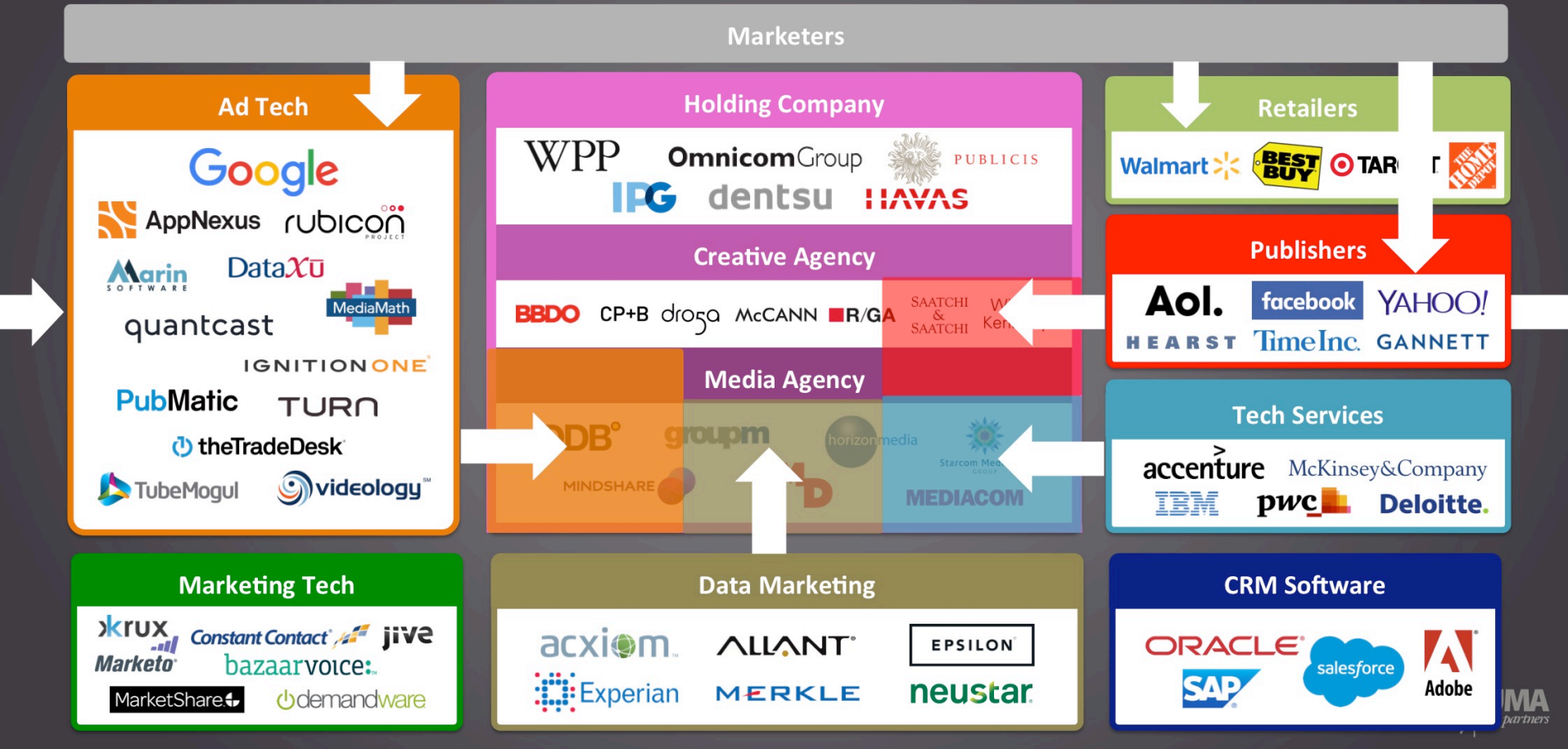


# Agency Encroachment From All Sides



Agencies are being squeezed from all sides. As more media buying is software-driven, Ad Tech companies including many players across the LUMAScape are taking share. Data Marketers are encroaching on campaign spend and big Tech Services are showing interest to pursue services in advertising. Publishers are encroaching on creative work as they take on agency-like capabilities and content studios. And let's not forget another major trend towards client direct.

# What's a Holding Company to Do?



Here are five ideas...



# 1) Consolidate

## Marketers

### Ad Tech



### Holding Company



### Creative Agency



### Media Agency



### Retailers



### Publishers



### Tech Services



### Marketing Tech



### Data Marketing



### CRM Software

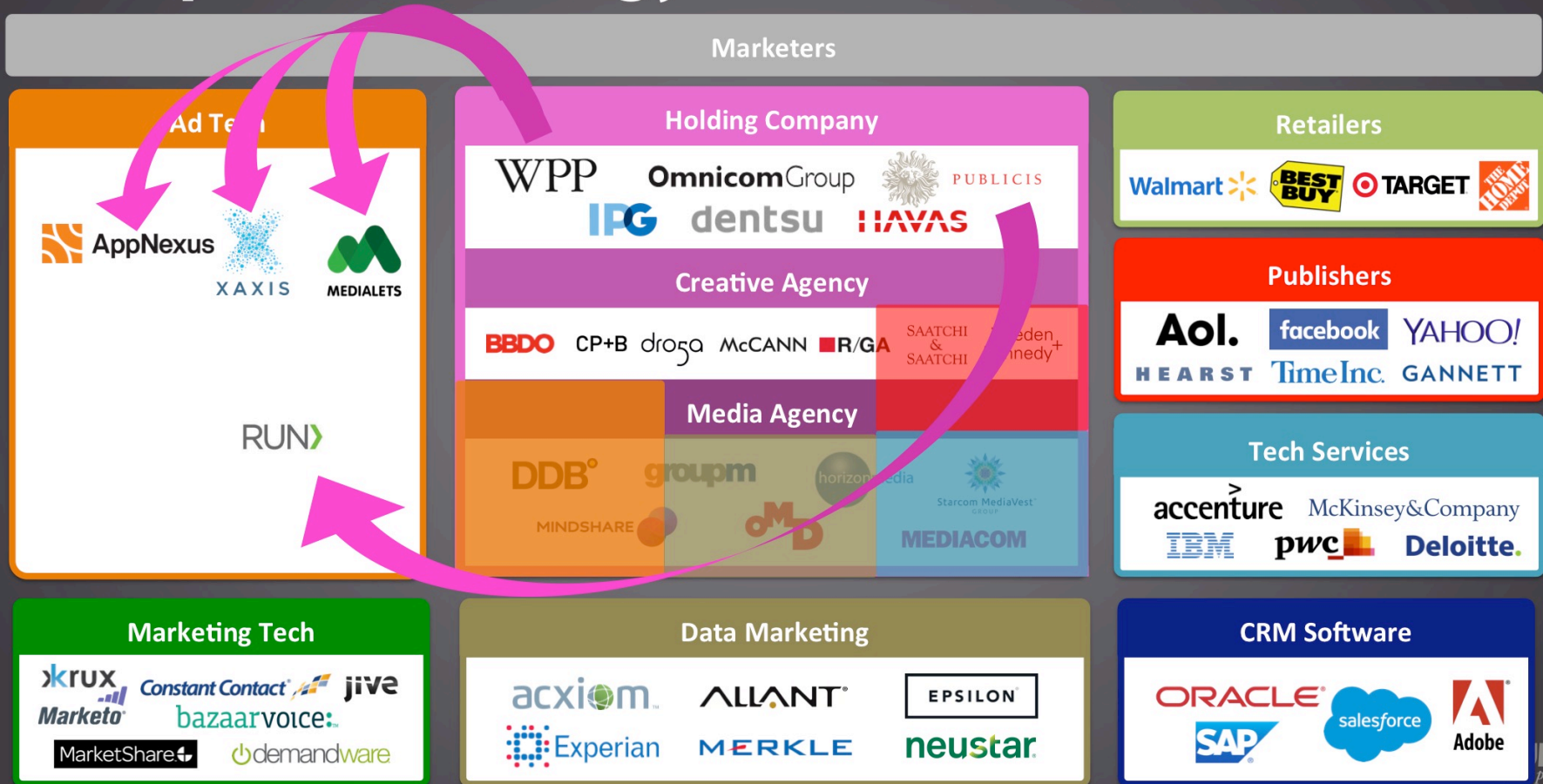


*We saw with the recent failure of Omnicom/Publicis that Holding company mergers are hard. Certainly some quality independent agencies like Droga5, Weiden & Kennedy and Horizon are attractive targets but consolidation on a large scale doesn't seem to answer the problem.*



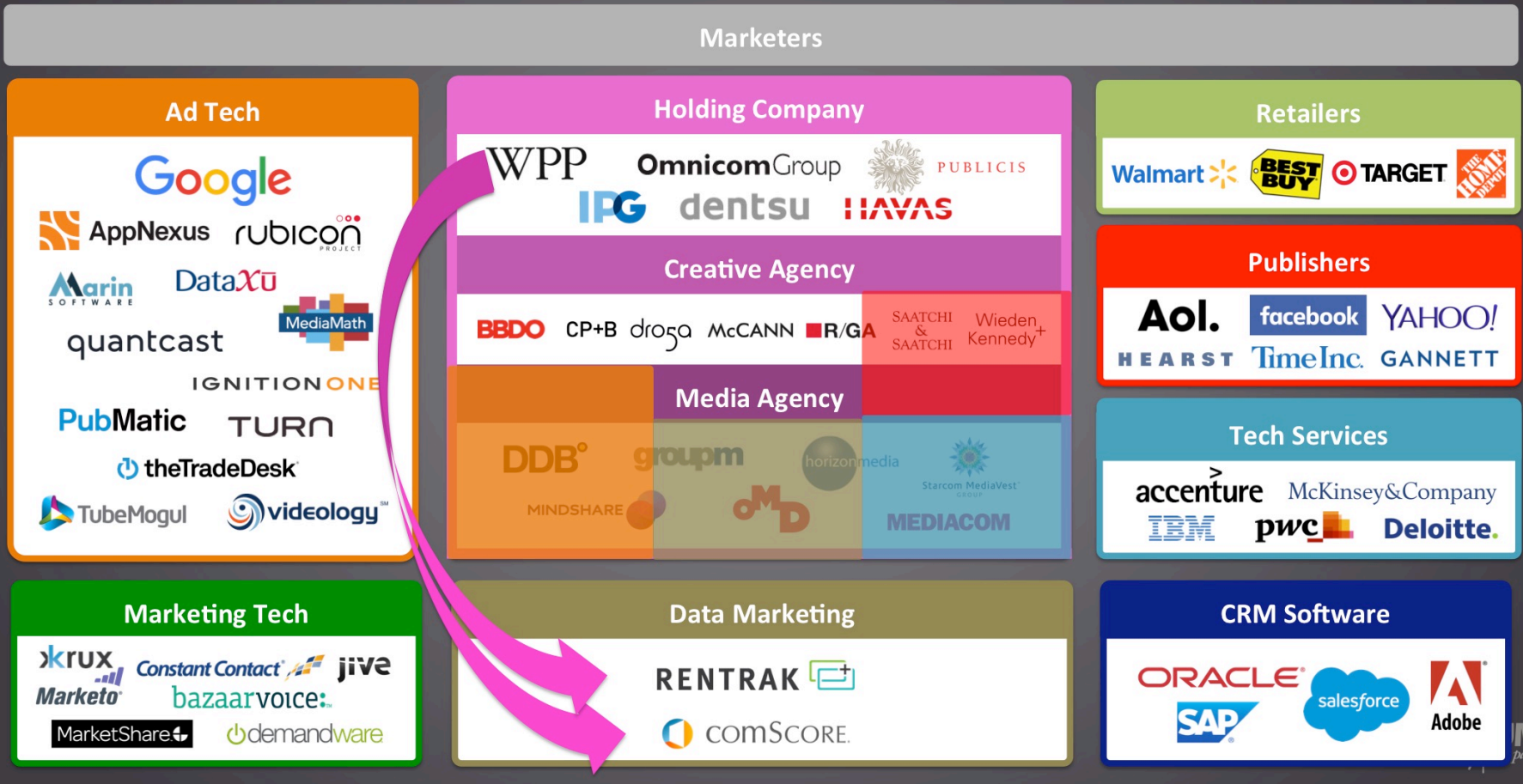


# 2) Acquire Technology



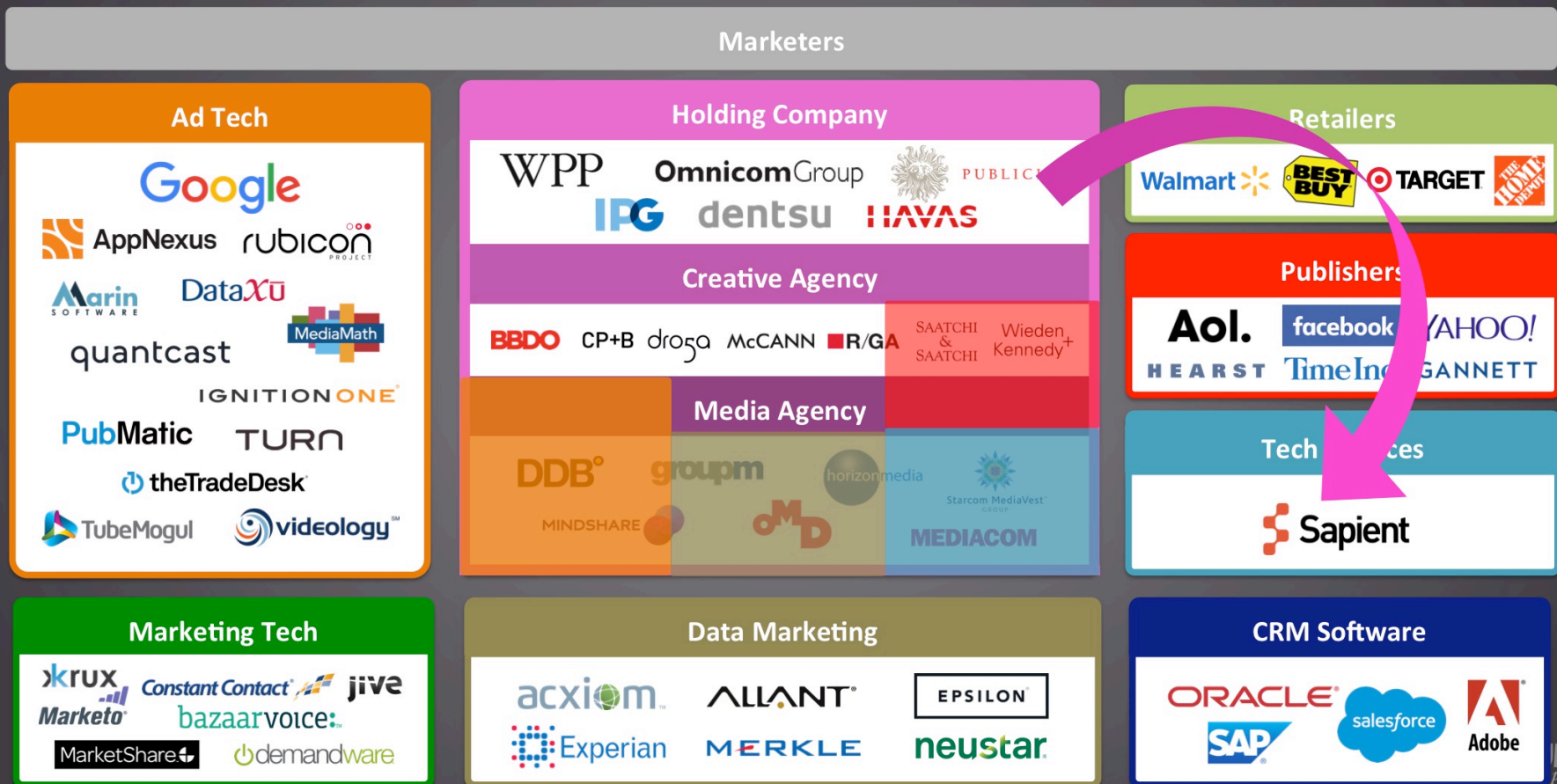
We say acquire as opposed to build based on the recognition of the difficulty of developing technology from within an agency due to the lack of tech talent and institutional DNA. Then there's the problem of obsolescence, which is hard enough for a standalone technology company, let alone an in-house solution. Some Holding companies have made strategic moves (investments, acquisitions) such as WPP and less so Publicis, but the jury's still out.

# 3) Acquire Data



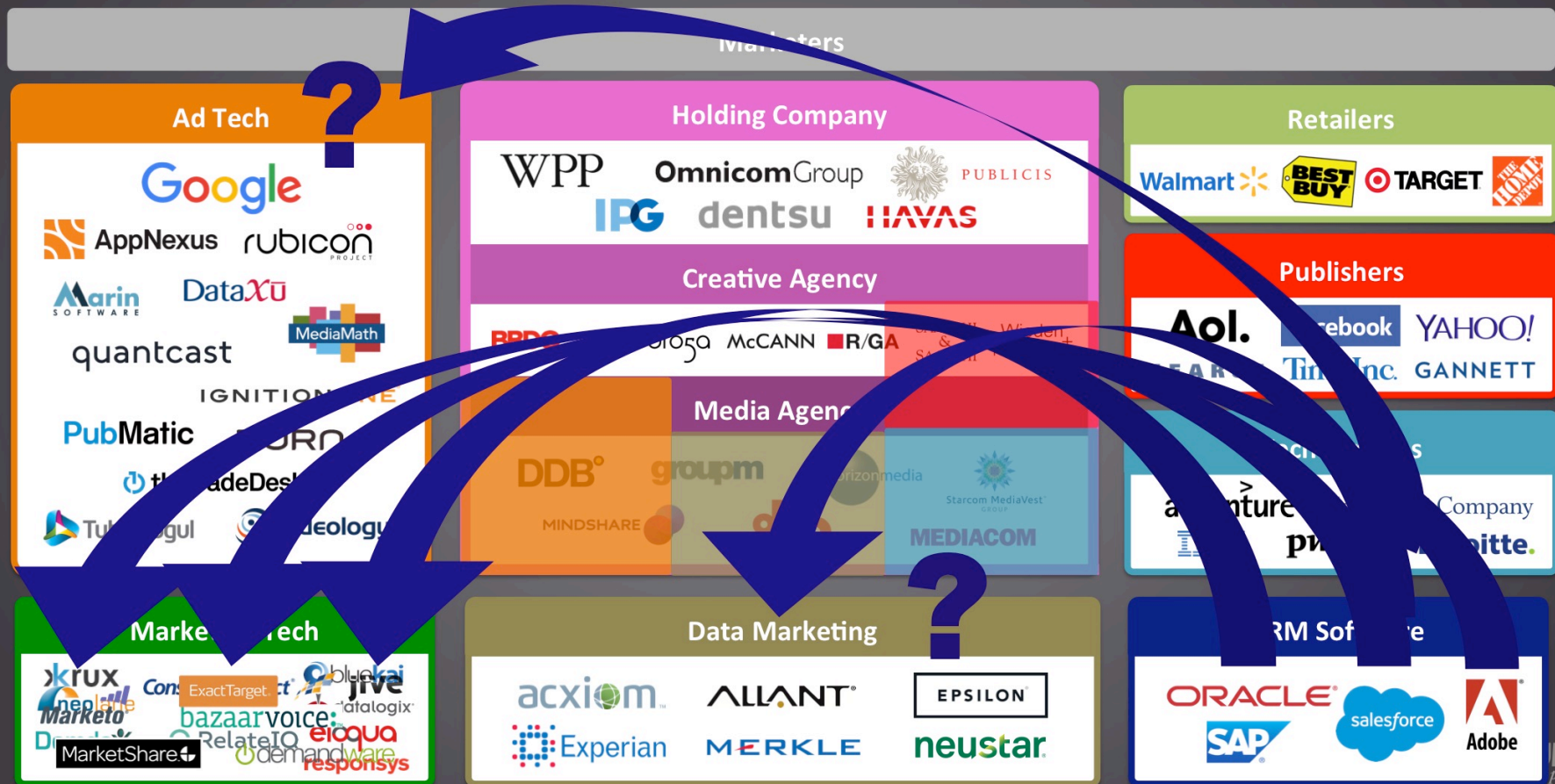
*This seems like an inevitable future of agencies. Data is the lifeblood of advertising as it provides the connective tissue that ties everything from planning to buying to attribution together. We like Data Marketing as a strategy for agencies and WPP has made some moves in this arena that look promising. In a world where Google and Facebook have so much data of their own, this strategy may be necessary for agencies to compete.*

# 4) Acquire Services



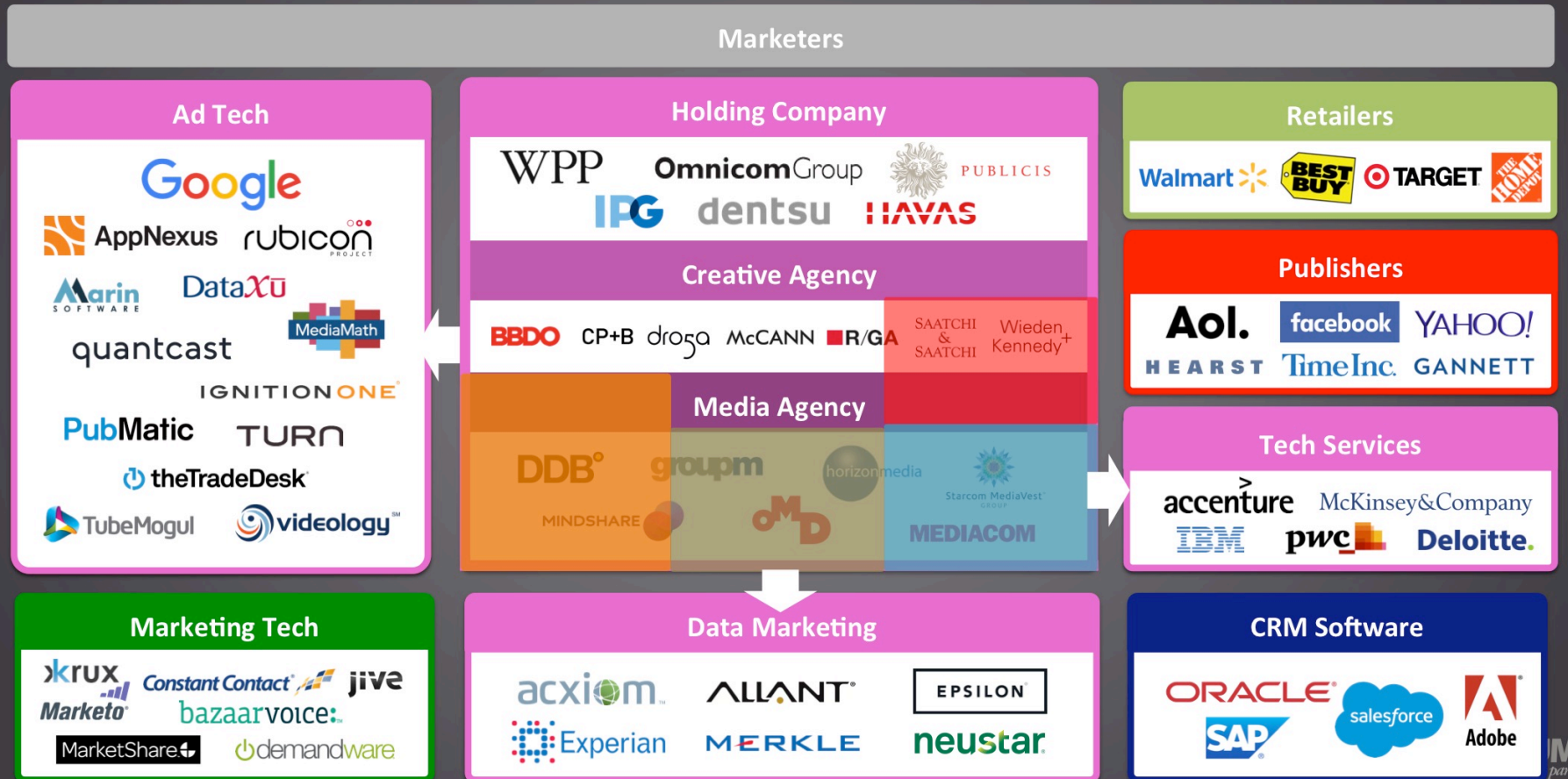
After technology and data, the agency's other alternative is to acquire Tech Services. Instead of producing the creative for marketing campaigns, Tech Services advise companies with implementation and strategy. Buying Tech Services is akin to buying a new competency, and with that a stronger value proposition. We believe that acquiring Tech Services is a viable extension strategy and Publicis' acquisition of Sapient is indicative of that.

# But Other Buyers Are More Capable

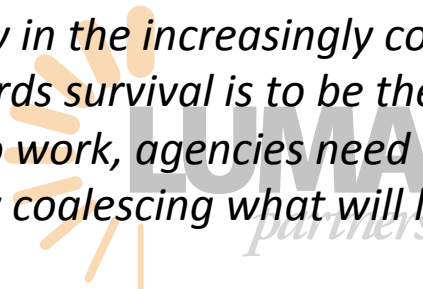


Agencies face stiff competition, especially if they apply their traditional earn-out structures that are better suited for professional services deals. CRM companies can easily outgun the agencies with 6x the market cap and 7x the valuation multiple of the Holding companies. Add to that the growing interest from much larger Consumer Internet, Commerce and Telco giants as competitive buyers and it is easy to see why the going will be tough.

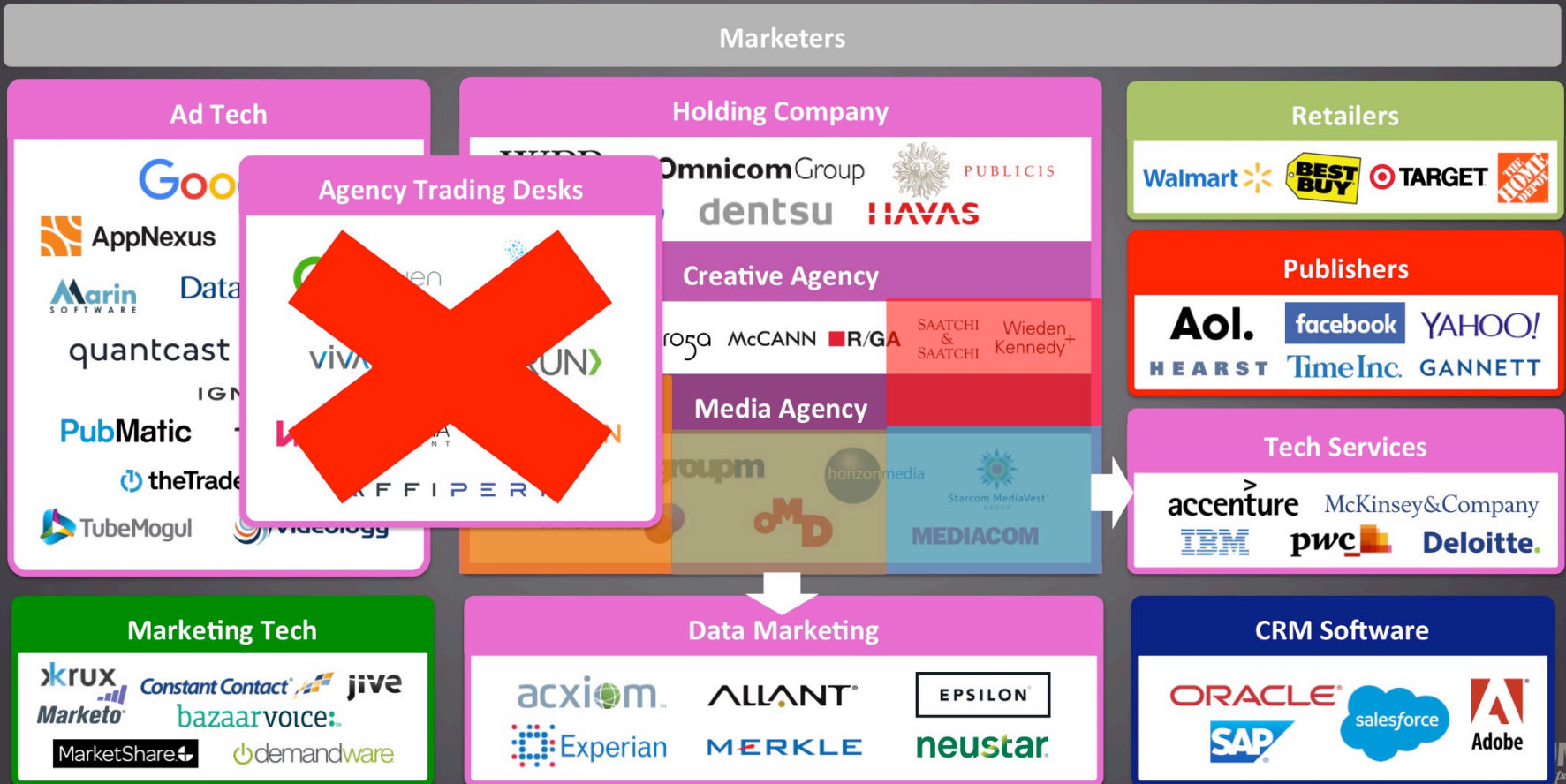
# 5) Become Strategy and Systems Integrator for All



While agencies fight for relevancy in the increasingly competitive marketing landscape, they may find that the only path towards survival is to be the bridge that connects every touch point for the marketer. For this to work, agencies need to be technology and data adept to add real value to the marketer by coalescing what will likely continue to be a fragmented ecosystem.



# 5) Become Strategy and Systems Integrator for All



*By way of example, we do not believe that the agency trading desks have sufficient value to warrant a seat at the table long term.*



# What Happens if Agencies Don't Keep Up?



*If none of these five options pan out, what happens to the ad agency?*





Creative Agency

BBDO

CP+B

droga

McCANN

R/GA

SAATCHI  
&  
SAATCHI

Wieden  
Kennedy+

# Back to **Mad** Men



*One could imagine a digital world where the media agency loses its relevance and vanishes, in which case there won't be a need for the holding company structure. What's left would be only the creative agency. It's back to Mad Men.*







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