

# THE SCRAMBLE ON MAD. AVE

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When they follow clients to the Net, something happens to agencies--they get more creative.

J. Walter Thompson, the 141-year-old advertising agency, held a funeral this past winter. On Feb. 28, staffers in Paris lit a bonfire and tossed in materials from old campaigns. In Tokyo founder Commodore J. Walter Thompson received a mock burial at sea. And thus the \$1.3-billion-a-year J. Walter Thompson was reborn as JWT. The ad agency is dead! Long live the ad agency?

JWT is responding to the malaise that has afflicted Madison Avenue for almost a generation, as agencies have been forced to give up their fat commissions on the commercials and print ads they place on behalf of clients. A 2004 study by the Association of National Advertisers found that only 10% of agencies now work solely on commissions. Instead they charge fixed fees or hourly rates for time spent devising and executing campaigns. That pinches margins. WPP Group, the \$10-billion-a-year London parent of JWT, aims for 20% operating margins, but in recent years they've hovered at 14%.

Those brutal cost pressures, of course, are coming as unconventional media emerge as the main source of growth in the \$279-billion-a-year advertising universe. National advertisers are expected to spend \$7.9 billion on the Internet this year, a 15% increase from 2004. (That represents the bulk of advertisers' spending on nontraditional forms, which also include videogames and product placement.) Naturally, the visionaries in agency-land are cooking up ways to grab their share of the pie, and that may mean not just reinventing the 30-second TV ad but remaking the agencies themselves. They present their plans--some genuinely creative, some redolent of snake oil--with all the fluency you'd expect from people who pitch for a living. Which strategies will work? You be the judge.

360 degrees of Ogilvy

Ogilvy, the \$752-million-a-year ur-agency (sample clients: American Express, IBM, Cisco--and Yahoo) sees its 33-year-old OgilvyOne direct marketing and interactive unit as the centerpiece of a "360 degrees" strategy to cater to clients' every need. To midwife the development of the American Express OPEN small-business network, Ogilvy since 2002 has choreographed internal town-hall meetings; designed a new brand identity; planned direct-mail, TV, and online ads; written the product into the reality TV show *The Restaurant*; trained call-center workers; and tested one-to-one pitches on different types of customers, such as doctors shopping for equipment.

The agency likes OgilvyOne so much that OgilvyOne president Carla Hendra is now co-heading Ogilvy's flagship New York City operation with its president, Bill Gray. And by the end of this year the company, which has always maintained separate brands for its units, will integrate the disciplines so they can work more closely together.

**AGENCY SPIN:** Under the new model, says Hendra, "the breed of account person that we've been growing and training will be able to handpick a team from all the disciplines and put it in the service of this great idea that comes out of creative."

**REALITY CHECK:** Turning an agency into a talent warehouse--specialists in every discipline from direct marketing to product placement to creative--is expensive. And few clients possess American Express's affinity for comprehensive marketing (or its deep pockets).

### Taking it to the street

Two years ago Kaplan Thaler Group, a subsidiary of \$4.6-billion-a-year Publicis, set up a so-called guerrilla-marketing unit called KTG Buzz. The goal, says Robin Koval, chief marketing officer and co-author of *Bang: Getting Your Message Heard in a Noisy World*, is to find nontraditional ways "to get ideas into the pop culture." Though a traditionalist might object that guerrilla marketing isn't that far removed from hiring a guy to walk around wearing an EAT AT JOE'S sandwich board, Kaplan Thaler didn't care. For Aflac it brought the U.S. synchronized-swimming team to perform in a pool outside David Letterman's theater. And it routinely stages Quackattacks among the tourists watching *The Today Show* through the studio windows at Rockefeller Center. Another triumph: writing an ad for Herbal Essences into a February episode of the WB show *What I Like About You*.

**AGENCY SPIN:** Inserting ads into the middle of programs is a brilliant innovation on the 30-second spot. The Herbal Essences placement, crows Koval, "was TiVo-proof!"

**REALITY CHECK:** Guerrilla marketing works well for building brand awareness, but it's not so effective at telling the story behind a product. And you don't need an ad agency to do product placement. Hollywood talent firms like William Morris and Endeavor have started their own product-placement units to work directly with FORTUNE 500 advertisers, and sports agents are busy inking deals to place their clients in videogames. In a contest between predatory agents and smooth-talking ad people, our money's on the sharks.

What's an ad agency? "The term ad agency needs a true and sincere facelift," says Peter Arnell, chairman and CEO of Arnell Group, a New York unit of \$9.2-billion-a-year Omnicom. Indeed, many agencies are putting themselves under the knife. Arnell, an architect and industrial designer, says agencies have to think of ways to "build the advertising and brand into the product." He has been hiring industrial engineers and designers to get his agency involved in product and store design. Last fall Arnell was hired by Swedish appliance maker Electrolux to help design and promote a new line of blenders, toasters, and other appliances.

AGENCY SPIN: Arnell has described his company, which handles Con Edison, Almay, and Cuervo, as a "brand-ideation and experience-marketing company specializing in integrated branding, strategy, and communications solutions."

REALITY CHECK: Truly and sincerely, Arnell lost us at "brand ideation."

All the world's a screen

Advertising is now about bringing commercial messages to screens of all kinds: computer screens, giant screens in Times Square and at stores, and teensy screens on videogames and cellphones. That's the theory at Havas's McKinney & Silver, a 200-person agency in Durham, N.C. The disciplines that stood agencies in good stead for TV--combining irresistible images with music and words--still matter. For the launch of Audi's A3, McKinney & Silver created an intricate reality-game scenario encompassing 10,000 web pages--"The Bourne Identity meets The Da Vinci Code," as president and CEO Brad Brinegar describes it. It challenged users to figure out who stole the Audi. TV ads steered viewers not to car dealers but to the campaign on the web.

AGENCY SPIN: "We're in the adolescent phase of interactive advertising," says Brinegar. (He's not referring to the flatulent horses in Super Bowl XXXVIII's moronic Budweiser spot.) "Interactive today is where TV was 50 years ago."

REALITY CHECK: Who's to say that people won't have the same negative reaction to advertising on computers and cellphones that they do to ads on movie screens?

Revenge of the media planner

For years media-planning and -buying companies were the lowly number crunchers who figured out where to place the ads devised by superstar creatives, earning a few percentage points of commission for their trouble. But with an expanding media menu and a growing ability to track response to campaigns in real time, planners are suddenly hot. (See "Nightmare on Madison Avenue" on fortune.com.) "Seven years ago media was the last five minutes of the presentation. Now it's reversed," said Rishad Tobaccowala of Publicis Groupe Media, whose fast-growing Starcom division helps clients buy and measure interactive, mobile, and gaming ads. "Today media [buyers] and the ad agency are equal partners." Some full-service agencies, which had been content to outsource buying, are rediscovering its virtues.

AGENCY SPIN: "Because the media marketplace is so much more complex and every day something new emerges, we do all the planning and buying in-house," said Linda Sawyer, managing partner and chief operating officer at IPG unit Deutsch Inc., which has \$2.7 billion in annual billings.

REALITY CHECK: Do bright young things accept advertising's meager salaries for the thrill of coming up with the next "Where's the beef?" Or do they really prefer the frisson of running spreadsheets and tallying click-through rates?

Same as it ever was

Forget about hiring experts in interactive gaming and database management and building a one-stop shop, says Chuck Porter, a founder of Crispin Porter, a fast-growing independent agency. Advertising still comes down to creativity: "To worry about how we're going to deliver the message is a waste of time. The skill set for the new world of brand communication is very simple: brains, talents, and imagination, and passion." Traditionalists like Porter are content to see their agencies' reputation and compensation rise and fall with the fortunes of their clients. Crispin Porter charges a fee plus incentives for performance. So does Modernista, the 80-person Boston firm that has tripled in size in two years and that devised the evocative TIAA-CREF "A Place for Us" campaign.

AGENCY SPIN: "We're not an executional house; we're an agency that creates living, breathing business ideas," says Modernista president Clift Jones.

REALITY CHECK: The bonuses we're talking are more like tips. If you do a really good job, you might get your fee plus 10%.

And if clients opt to do it themselves? Skype, the Internet phone service, has reached 40 million users worldwide without spending a dime on advertising. In devising its biggest-ever ad campaign for a kids' book--a \$500,000 multimedia push for the adventure fantasy novel *Eldest*--Bertelsmann's Random House is flying solo. As Random House marketing VP Daisy Kline told the Wall Street Journal, "We didn't feel we needed the expertise of Madison Avenue."

Conglomerates launching products without Madison Avenue, startups reaching global scale without ads, Google and Yahoo outdrawing the Big Three networks--and broadband is only in its infancy. Scary stuff. But look on the bright side. Total U.S. ad spending is rising, and capitalism will always reward a seductive pitch.