



Agency Evolution with Marc Poirier

Male 1: I think we'll probably go ahead and get started. Marc doesn't need an introduction. We all heard him this morning, but he's the CMO of Acquisio, talking about agency evolution.

Marc: Thank you very much. All right. So yeah, thanks for that warm welcome. Just a brief overview: I'm Marc Poirier, I'm the co-founder of Acquisio. I'm an Internet marketer and I'm also a scientist, although I've stopped doing that. This is kind of a work in progress, but I've been thinking a lot about where is the agency business today, where's it going, and it's importance for us.

We've built software. We were a search agency and we had some issues. We thought it would be great if we could build some scripts and stuff to help us along, to do a better job with delivering services for our customers. Over time, that supporting job, we had two or three people helping us out building these scripts, became a new business completely. We sold the agency and focused on building tools. In the first few years, we focused on, "OK. We need to get more customers. How can we do that?"

Then we come to the time of "Where's this all going?" We keep adding stuff top the platform. We added Facebook display, and so forth. The industry is requiring us to do more as a platform because there's pressure as an agency to deliver different kinds of services and how do we support that? We've been really interested in understanding what are the concerns of a VP of operations inside of the agencies or the presidents of smaller agencies and what keeps them up at night. What are the challenges they're facing? So we worked with Forrester Research and with our customers, and some of our non-customers as well to try and understand what that is.

This, what I'm going to talk about, is a bit of the history of the agencies, where they come from, to put it in context of how we've come to this. You guys are typically smaller, mid-size agencies, but even the bigger ones face the same problems but they're really stuck in a weird position. So, where did it start? Arguably, we don't know where an agency started. I mean, you could debate this all day. But in the U.S., it slinked off into the publishing business in newspapers.

Around the mid-1800s, newspapers became prevalent in local areas and they required distribution to make a business out of it. They can't just keep it to their villages so they started exporting out and agencies played that role. This is when you could see something where an agent was there to help publishers meet their business, which are people who are buying the newspaper. There were not a lot of ads yet, but it was starting as well. So they saw opportunities there. "How do we get ads into these things?" But they're acting mostly as agents to move newspaper from one village to the neighboring

areas.

A little later on, lifestyle magazine, Life Magazine is one of them, came up to national distribution. This became an opportunity for brands to start positioning themselves. So you had a massive increase in trademark registrations around those years. Agencies took advantage of that, mostly for market research. They offered copyrighting, creative services and things like that. They stopped being just a distribution agent and became a bit more like an agency we see today, where they help you come up with concepts and a clever message and things to position your brand. But they did this in magazines and, of course, in newspapers and everything that was there before was influenced by this.

Speaking of influence, in the 1920s until 1950 or so, the radio influence era. Propaganda, right? This is wartime, you need to get messages out to keep people happy and keep them interested. So brand managers become a real role inside of companies. Someone is now in charge of the brand, of creating it and working with companies like agencies to sort of get this thing into newspapers, magazines and now radio. They started offering other services as well, such as public relations. PR. Getting journalists to notice you and speak about you became really important. Agencies had a really important role to play.

Of course, television. The Mad Men era, 1950 to 1980 or so. Essentially, and we didn't know this at the time it was revolutionary, but it became a dominant medium until today. It's still where most of the money goes for advertising. The agency role changed from being instrumental and just doing legwork and helping with copyrighting, now their job is to come up with a great idea. "How do we really create a brand and make it stick out?" This was it. At the time, agencies were, of course, not doing anything on the Internet, which didn't exist, so it was limited to newspaper, magazine advertising, radio and television.

So these things are there. P.R., media, creative and now interactive, CD-ROM building in the '80's. Interactive becomes something and agency holdings are born. They existed for a while, but they became really big in those times. So between the 80's and today. They're still growing massively, but these big IPG and WPP, huge conglomerates; what these are, are funds who go out and acquire companies that are working on a local level and putting them under their umbrella as their brand.

So they've created a monster. It's divided in silos, so you have your P.R. that focus only on P.R., the media agency places media. Creative agencies are the idea guys, the interactive shops, we know who that is, and the direct marketing companies. These are the big five silos that we have today. Inside organizations are the same way. So if you have agencies that focus on this and if you look at large advertisers, they're structured like that. You'll have people in charge of P.R., people in charge of creative, brand managers, so it follows the same logic.

2000-2009 was the Internet era. I talked about it earlier today, but the time we spend on the Internet, we spend a lot of time there, but it's still not a lot of money. It's not following proportionately. But more and more, it's catching up. So in 2016, we're looking at 26% of all medium that will be online. Today it's more like 16%. So there's lots of room and there's going to be lots of growth in our sector in the next four or five years. it's due to the money moving from television to this and print.

So, what now, right? Today, we've seen all this. We see the big agencies and how they've acquired all these businesses. Then, there's thousands, it's a really fragmented market, but there's 13,000 interactive agencies in the U.S. with more than two employees. What that means is web development shops, SEM, SEO, it means email companies, the works. Anybody who's doing interactive and it's not just the one person is classified under that. So it's a large market, there's lots of competition, of course. A lot of it happens at the local level. Not necessarily that they're doing local marketing, but they'll typically focus on brands and companies that are in their immediate reach.

What's performance marketing? I don't know. This is my definition of it. It's probably going to change. Every time I look at it, it changes a little bit. Usually, it's interactive, highly-measurable, controllable, can be optimized in real time or near-real time, almost always tied to ROI in one form or another, but ROI not necessarily the hard term but just some kind of return you're able to measure and it satisfies a business need. It includes or can include paid media. It can include earned media or owned media and it's not necessarily digital, but it's always linked to the Internet in one form or another. Yes, we can debate that, I don't know. This is what I thought a few weeks ago.

It's changed. Now, you're accountable. We know this. You go to pitch to a client and you will tell them what you think is going to happen. "If you give me your business I think I can do this, this and this for you." We're able to measure it. Back in the day, there was no such thing. It was "I have a great idea." You would go and say, "We're great. Here are our customers. If you give us a lot of money, we'll come up with a great idea for you". This was the model of the agency. Or they would just place the media. They wouldn't have the idea but they would just focus on placing media and taking a large percentage of the ad spend. It wasn't measurable easily. But today everything is. Beyond just interactive marketing, you can measure the results of things that are happening offline pretty well. Not necessarily exactly the same way you do online, but there are ways. I think, ultimately, performance marketing will become just plain, old marketing. I think all of marketing is accountable more and more. Even brand advertisers are held to standards of measurement to see that their activities are working for them. It's just the beginning of a new era, I think.

What are some of the opportunities that come from this? Obviously, one of the things that has changed is how you can't any longer just push out a message and expect people to just swallow it and be OK with that. People react. We know this. It's a problem or an opportunity, but it's happening. People talk back, using social media, Twitter notably, but it can be anything. Communities, discussion forums. It's a problem so you need to know how to work with that. Agencies are in a unique situation where you're not the brand, so there's work to do there and we'll talk about that a little bit later.

Also, there's the crowd. With social media, you're talking to everybody online. It's not just 20-somethings. There's children and grandparents. The important of branding, beyond just generating conversions and leads, and things like that, which we're really focused on, real brands and real companies usually need to do more than just that. There's a concern for your image and this needs to be respected as well. It's how you carry yourself and how people perceive you and how they talk about you is more important than what you say you are. This is Howard Draft, he's the founder of Draftfcb, which is a huge agency. There's a move from push to pull marketing. Like I said, it's no longer about pushing out a message, but people come and get the information when they want it. This is also another reality that we have to deal with.

I talked about this a little bit this morning, but maybe I'll focus on some of the other numbers. There's just overall growth of the sector, but social media and mobile are growing extremely fast. In fact, this is interesting, mobile already is bigger than social media. You would probably not know it from the hype but it's a bigger sector. So the growth rates, 26% for social media over the next four years and 38% for mobile. There's massive growth there and the numbers are significant. You can grow fast but it doesn't mean anything but for mobile, it becomes an \$8 billion industry pretty quickly. It's almost as big as display is today in just four years, so the money is moving from the traditional, it's not new money.

One of the issues that we're also facing is the amount of data that's coming through with RTB, for one. With display, it's infinitely more complex than search is. The amount of variables is crazy. So keeping track of all this data; not just storing it, but being able to do something with it is a real problem that we're facing. But beyond display, it's like all the different channels you're using. So now we're able to

capture all of these interactions and store them. This information exists and we have it, but what do you do with that? It's really hard. It's not an easy problem to solve. Another thing is real time decisions. I'm deciding, "Am I bidding on this impression or not?" It requires a lot of fire power. You need to be able to make decisions intelligently on historical data that you have and industry best practices, but it's not an easy problem.

Obviously, we're going to need to use technology to do this and we do. But there will be, I think, an increasing need for specialized technology to handle this, and to derive information from all the data. Because today, it's nice to know that you have terabytes of data on your past month of marketing, but what are you going to do with that? I think the whole point from me is, it's related to who is going to be doing this. Handling campaigns that cross traditional channels and into online requires a specific skill set, and it's probably not the same profile that we've been hiring since the late 1990s. I think Internet advertising in general has been picking up brilliant people from gender studies and philosophy and history majors because they couldn't find employment and they're brilliant so this is the industry we're in. The problem is when you start talking about statistics, they usually don't even have a foundation to talk about that.

There's a huge problem when you know there's more data in advertising than possibly in the military. I don't know, I just made that up. I don't know. I should use that, yeah. The problem is that there's so much data coming from so many different channels that we don't know what's causing what. There's no causality. It's not obvious. It's not necessarily because you're doing some TV campaigns and radio campaigns and print and you're doing all these things at once. How do you know what mix, what messages, what's driving the results you have today? Well, of course, it's the mix you have now. But who's to say that if you suspended one or if you doubled the spend on one or changed the message? It's really complicated and more and more, I think advertisers and CMOs are going to want one agency, one company, one group of people, one methodology, one set of technology that works together to get this done. I don't think this is something that is just going to happen.

We need to purposely engineer into the fabric of the agency, and start hiring mathematicians and operations research people and not tell them that they're on a science project. You need to teach them the ropes of marketing, of course. You still need to have your marketers, and you need to have people who have gender studies, I keep saying that, but you still need all these people. But on top of that, you will need to have people that are able to deal with this data and suggest mathematical models to build the proper attribution model for your client. How do you do this? You need to hire the right people, and we're not doing it today. I see some of the bigger agencies are making moves in that direction and they are hiring some of these people, which is great. But the question is what about the 13,000 mid-size agencies that are out there? What's going to happen? I don't know. I don't know how many math majors are coming out of the universities these days, but if I was in school today this definitely would be something I'd consider if you had any mathematical skills.

A lot has been said about that. It's the next big opportunity. This is great. What does this mean for agencies? Obviously, marketers don't have the resources to handle this. Even bigger brands will have eight to 10, 12 people in marketing and they're not going to triple their department to handle data. This is an opportunity for us. What's the role of the agency in this? It continues to be to help, understand, listen and make sense of what's going on. To keep an eye out for what's going on out there and to do the work. A lot of money that we make is because we do the hard work that nobody wants to do, and we bring the intelligence to it. But one of the difficulties is that we can't talk on behalf of the client so there needs to be a way to work with the client with regards to social media. Who's going to be the one to talk back when these people are angry at your brand? It's probably not the best idea to have the agency do it. There's been a few hiccups of different brands. You have seen this, where they've let the agency do it and it was a total P.R. disaster. While you can help, you are not your client, and you are

certainly not your 43 clients. They have their own voice and they need to be out there interacting.

This is why I think it looked like in the pre-agency era. Buttoned-up people selling big ideas and a better image, positioning branding. It's still important today. But on top of that, we've had a bunch of hiring with the social science crowd who are very smart but couldn't find employment so we've staffed up with that, and it's great. But today, I think we need to really start thinking about how we get the math skills into the agency to allow the CMOs to do more with all the data that's sitting there. Of course, this is true actually, today most online media is sold at an auction. It's not necessarily a live auction. It can be a hosted auction, but it's happening. Search is about 50% of all the dollars that are spent, just a little less; and display RTB is quite large, Facebook ads. If you start looking at that, it's significant and it's not going to stop. It's just going to get more.

Attribution is really hard. We talked about this. It's not hard, I guess, to track all of these things. A lot of companies do that. The technology is there. It's just "what do you do with it?" Today, all of these channels are independent. Each one has its own manager. They're accountable for their own results. Inside, even of the big agency holdings, everybody is independent. They're all their own P&Ls. You'll have, let's say, Group M office in Amsterdam and another one in Belgium and they don't really talk that much, to be honest with you. They compete, almost.

Beyond just what's happening online, we talked about the offline issues. These guys have been measuring what's called media mix modeling for a long time. It's not like this is new. They've done this, and they're doing it successfully. It's just putting the data out there in correlation with the results they're getting. It's not necessarily a causality that we see but you can see correlation quite well. I think we need to take from that, probably, and bring that into what we do online with attribution. Of course, the space is more and more competitive. You need to get that talent. It's going to be a race, not only for customers, but to get the skill sets into your companies to address this. It is an issue. That's it. I think if agencies don't adapt with the technology that's available and everything else, then the way they operate today, it's not possible to continue.

So, in conclusion, I think there's a massive opportunity for the agencies. This is too much work, it's too hard. CMOs. They're not going to hire another 50 people to deal with all this data. They're going to find another company to help them do it. It's up to you guys to get ready for that. The complexity is just getting worse and worse. We are overloaded by data. We don't know what to do with it; and too many skill sets are required for in-house to do it. I think interactive agencies are in a great position to take the lead here, obviously. It's not necessarily the brand agency that's going to capitalize on this opportunity. Technology is at the heart of this becoming success. Obviously, you can't handle this much data if you can't automate a lot of it. Silos will have to start breaking down between the different specialties. CMOs want it and we need to do something about that.

Hopefully, some of you guys will start thinking about how do you get ready, and start hiring a different mix of people. It doesn't mean that you don't want to hire marketers; it is marketing. But you need to have some people with the ability to work with data. This is already happening. We're seeing it with some of our biggest clients. They are hiring these people and they're successful at teaching them online marketing, and it is improving the results they're getting for their clients. It's giving them some insight into the client and how they need to handle all the data that's out there. I think it's a niche for them or it's going to become a niche for them. If you haven't run into agencies that come with a pitch where they're positioning themselves as proper performance media with all of the skills to handle the data, you probably will. Hopefully, you guys are thinking about that and you'll have the ability to recruit some of these people before they become too hard to find.

That's it. Like I said, this is a work in progress. This is the stuff I've been thinking about. It's not all

there, but I think the online advertising world is changing. There's an amazing opportunity for technology providers, but as well as for the agencies to get ready for this and start equipping their clients with everything they need to address the opportunity. Mr. Ryan?

Kevin Lee: Lee.

Marc: What's that?

Kevin Lee: I'm Kevin Lee, not Kevin Ryan.

Marc: Oh, sorry.

Kevin Lee: There's also a Kevin Ryan, but anyway. Obviously, in-house versus outsource is not as black and white as it used to be in the past. But I've talked to a fair number of CMOs who made bad agency choices in the past and seem to have been sufficiently burned by that. They sort of seem wedded to the idea of trying to keep as much control in-house as possible. Yet you seem to be hypothesizing that the increased complexity will actually be...

Marc: Impetus to go the other way. But this is a pendulum. You're right about that. I'm not saying that the whole industry is like that, that there will be dips and curves. But when you talk to any CMO, they'll tell you that story. "Oh, we used to do it in-house and we outsourced to an agency and then we lost some control so we brought it back, but now we have it and we don't have time or we don't have the right skills so we sent it back". You're right. I don't think it's ever going to end. But this, for me, this would be a compelling argument.

I'm a CMO, of a small company, granted, but I have 13 people doing marketing in my company; and I have three agencies, actually these guys are one of them. We need help, and these are skills that we don't have internally. We have mathematicians but they're working on models for other stuff. But I can't put them on marketing. I'm happy to find an agency that will split one mathematician's time or two across a bunch of clients. As long as I know the ability to deal with the data is there, I'm personally very comfortable. Also, this is stuff, I think you missed the beginning, but we did some private research to understand what do COOs of agencies and presidents of agencies need. What do they think they need to succeed in the future and today? That was one of the biggest issues for them. Who here works in an agency? Are you guys all marketers or agencies? All of you, pretty much. Good. All right, so what do you think? Do you see? Is this something that you're already doing? Did you already hire mathematicians or operations research people? No?

Questioner 2: There's certainly a need for it. I run the department at Hampton and it's hard enough in Wilmington, Indiana to find good talent just to be a marketer; that has a paid search background. So, our hiring process has evolved to the point that we're getting pretty good at math. Now that that's crossed off the list, I could see it evolving into compartmentalizing the skill sets a little bit further.

Marc: It may be early, too. I think for companies like Didit or iProspect, or companies like that, it's time now. But smaller, let's face it, it's an expense. If you're just generating this much margin, it may put your company almost in trouble to start hiring a bunch of mathematicians to get ready for the future. I understand that, but maybe collaborating with universities locally. That's worked for us, anyway. I know they're always looking for projects for their graduates.

Questioner 3: Like an internship basis?

Marc: What's that?

Questioner 3: Like an internship basis?

Marc: Yeah. Internships. We've had I don't know how many. You have to manage them, of course. They think they're going to write research papers. Just tell them this is not what we're doing. Because if you let them, that's what happens. It brings a lot of value if you manage them. But they are available and they're looking for projects and I think they'll be in really high demand, by our industry.

Questioner 2: So you're talking about the math writing folks. In your experience, having hired some already, obviously they're not doing management or agency work?

Marc: No. But they're trying to think of how we help those guys who do that, to do a better job.

Questioner 2: How hard was it to find them?

Marc: We're lucky because we have three great universities nearby and one of them, the math department is very large. So there's tons of brilliant people looking for work. Sometimes they don't want to work. They're professional students, right?

Male 4: We're lucky in Atlanta, where we've got IU, both in Bloomington and in Indianapolis. They've got a massive school they call the School of Informatics. People that come out of that are, I think, perfect candidates for marketing, but they go elsewhere.

Melissa: Well, they don't think of that. That's the challenge that I have. The other challenge is that you get this mathematician and how do you just culturally work them into your organization? We're all marketing-minded people and PPCs probably more analytical than a lot of other marketing, but you start talking to these people....

Marc: Different personalities? But, not all the time. You're right about that, Melissa. But obviously, they're not all like that. It can be a challenge because they're typically more introverted, but not always that different from some of the people I've seen in this industry as well. Really smart introverts.

Male 5: I think, taking it a step further, let's say you get somebody good, fresh out of school. You train them or let them build the model of what they do within the agency. Now the talent, because they're on the leading edge of that, how do you keep them there? Do I continue retraining every other year because the person moves on to a bigger place?

Marc: If you pay them well, I don't think they'll leave. I think if they add the value that I think they will add, then they should be compensated that way. Because today a lot of these guys are working and we get them for free from the universities. But we have hired two or three. They're not that cheap, because you're right, there is demand for that.

Male 5: Algorithms, right? Rather than the marketing side?

Marc: Oh, for sure. Like I said, we're not going to put them to work on that. I just need people that just understand statistics. Do we have enough data to do it, and so implement these things. But beyond that, operations research people, their job is to optimize stuff. So you give them a schedule with a bunch of different employees and the weather and things like that which may influence them and they'll work on that. Of course, if you're able to optimize pricing for airlines, you're probably really good at optimizing RTB. Like when do I bid, how much do I bid. They're educated to understand the logic behind all of this stuff. They understand the different models that are available and the techniques.

Male 6: On that note, what are your thoughts on keeping them outside the agency, and letting them sort of develop tools? Would it be cheaper to, instead of hiring a PhD candidate.

Marc: Yeah. Maybe. This is my understanding today, like I said, attribution is really complicated. I think it's really, really complicated, and I think they need to unpack clients one by one, almost. They just say, "All right, what's your history there and what's the data I have". It requires a lot of hands-on manipulation of data today. Maybe in the future we'll have magic formulas that apply to everybody within an industry or something like that and that are much better than the last click model for bit management, for example. But today, it's not that simple, unfortunately. It should be, but it's just a little difficult. All right, I'm out of time. Thank you.