

Ready Together

HOW US AGENCIES CAN ACCELERATE GROWTH TODAY AND FUTUREPROOF FOR TOMORROW

The compounded impact of recent healthcare, economic, and societal changes brought precipitant shifts in consumer behavior and marketer spending, which recalibrated the brand/agency relationship. As brands grapple with rebuilding in this new normal, agencies must be resilient and innovate to support their clients and emerge stronger than before. While the landscape will continue to change, an agency's first priority remains constant: It must deliver inspired work that resonates with consumers and drives business results for clients. To explore this topic, Google and 4A's commissioned Forrester Consulting to understand how agencies can navigate these new waters and seize new opportunities.

KEY FINDINGS

Forrester's study yielded the following key findings:

- › **Brands appreciate agencies' core strengths, but agencies have room to increase strategic value.** Brands are satisfied with their agency roster on many capabilities, but the value they provide and the associated costs are areas that need improvement. Fortunately, compensation models are expected to evolve to align agency and brand priorities.
- › **Automation and machine learning (ML) offer clear benefits for transformation, as well as an opportunity for agencies to lead the way.** Today, neither brands nor agencies have fully unlocked automation. Less than one in five are very effective at leveraging technology to automate aspects of marketing and advertising. However, agencies are more likely than brands to see opportunities to use ML to accelerate digital business transformation and grow revenue.
- › **Agencies must grow customer insight curation and marketing measurement offerings while maintaining creative services.** Brands need help with customer data insights and marketing measurement, and many agencies are scaling up their capabilities in these areas. Creative services will also remain central to demand for agencies. Agencies must use data and technology to strengthen core creative services.
- › **Agencies have opportunities to expand e-commerce and data strategy services.** While e-commerce has been growing for years, recent events drove dramatic expansion, and agencies are developing in this space accordingly. In addition, changing privacy regulations and the end of third-party cookies will have a major impact on consumer data availability on which many digital advertising strategies rely. Agencies are building expertise to help clients navigate these shifts.



METHODOLOGY

Google and 4A's commissioned a Forrester Consulting Thought Leadership Study to explore the path forward for how marketers and agencies can accelerate growth today and futureproof for tomorrow.

To achieve this objective, Forrester conducted online surveys of 310 US brand marketing and advertising decision-makers at companies that work with a digital media agency and 307 US agency decision-makers. Forrester supplemented this survey data with 12 interviews with US brand and agency decision-makers.

Agencies Increase Value By Aligning Compensation To Brand Priorities

While brand respondents appreciate their agencies' strengths in tech innovation, digital strategy, and campaign execution, more than half are dissatisfied with the cost of their agency roster (see Figure 1). This scrutiny of agency value is not unnoticed. Most agency respondents expect to realign compensation more meaningfully with brand objectives. While project billing models are the most common compensation structure today, agencies and brands expect that to change within the next three years. The two most common expected compensation models in three years are licensing models (e.g., a fee for platforms and software) and performance-based compensations models (e.g., a base fee with a performance bonus for achieving specific results).

This reimagining of how agencies are paid is a meaningful evolution of the agency economic model, reflecting a move from paying for people to paying for platforms and performance. Moving forward, CMOs and agencies will explore software as a service, managed service models, and more performance-based compensation.¹

Agencies Have Many Opportunities For Future Growth

BRANDS NEED AUTOMATION SUPPORT

Neither brands nor agencies are very advanced yet at harnessing the power of automation. Only 14% of brand respondents and 15% of agency respondents say they are "very effective" at leveraging technology to automate aspects of marketing and advertising. However, agencies are more likely than brands to see opportunities to use automation and ML to accelerate digital business transformation and grow revenue (46% of agencies compared to 35% of brands). Given that brands are not yet advanced in harnessing the power of automation, agencies have an opportunity to own this space, freeing up their resources to focus less on what the data is and more on what it means.

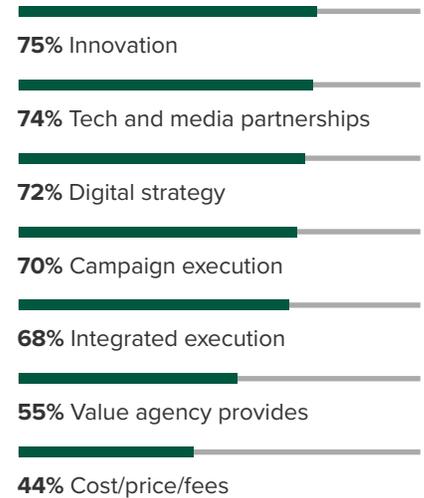
BRAND NEEDS ARE EVOLVING FOR INSIGHT, MEASUREMENT, AND CREATIVE SERVICES

Agencies have an opportunity to invest further in insights, measurement, and creative services to better address their clients' needs. Fifty-nine percent of agency respondents say they are excellent or good at deriving and acting on data insights, yet brand respondents say they struggle to do the same. Between one-third and one-half of brand decision-makers struggle with effective use of customer data, measuring marketing ROI, and deriving actionable insights from data. These are areas where agencies can make an impact, and many of them are scaling up their capabilities to do so. For example, 50% of agency decision-makers are expanding or implementing data insights/analytics/science capabilities in the next 12 months, while 44% are doing the same for data strategy and management.

Figure 1

"How satisfied are you with your marketing agency roster within the following areas?"

(Showing sum of "Very satisfied" and "Satisfied" responses)



Base: 310 US brand decision-makers
Source: A commissioned study conducted by Forrester Consulting on behalf of Google & 4A's, October 2020

"We have huge focus on automation and data analysis. ... But all of this change is against the backdrop of a difficult economy and global pandemic, which means limited budgets. ... I would like to hire in some of these areas, but that's not going to happen."

CMO at a global consulting, audit, and tax services brand



Brands also expect to increase demand for agency creative services and brand strategy in the next three years by more than 20% (see Figure 2). Agencies can expect to take on more creative services and content production as we see a shift away from in-housing, and close to half of those surveyed (48%) are increasing video and creative production in the next 12 months.

BRANDS NEED GUIDANCE ON NEW E-COMMERCE AND DATA STRATEGY CHALLENGES

Increasing consumer preference for online shopping is not new, but the events of the last year drove explosive growth in e-commerce. As a result, agencies are increasing associated services. More than a quarter provide e-commerce services today, and another 16% plan to do so in the next three years, representing 60% growth.

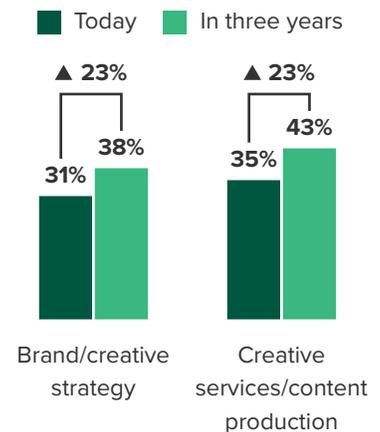
Changing privacy regulations and the end of third-party cookies will have a major impact on availability of consumer data on which many digital advertising strategies rely.²

Agencies are building expertise that could help their clients navigate the deprecation of third-party cookies — specifically, they are most likely to be investing in technologies around first-party data (51%), creating a first-party customer data solution (46%), and consolidating first-party data providers to get a single view of the customer (43%). Only 4% of agency respondents are unsure of how to prepare for the removal of third-party cookies.

As brands focus on increasing their e-commerce capabilities while simultaneously grappling with the deprecation of third-party cookies, agencies can support them through this next stage of transformation.

Figure 2

Functions performed by external agencies today/in three years



Base: 310 US brand decision-makers
 Source: A commissioned study conducted by Forrester Consulting on behalf of Google & 4A's, October 2020

¹ Source: "Predictions 2021: Agencies Swarm Talent With Technology," Forrester Research, Inc., October 28, 2020.

² Source: "The Future Of Advertising," Forrester Research, Inc., July 1, 2020.

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