PULSE

HALF YEAR REPORT

JANUARY TO JUNE 2024

Contents

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Introduction

By Hannah Astill

A H1 that's on one. Can it just make up its mind?

We are six months into the year, and what a year it's been already.

We found out that we had fallen into a recession, only to find out we've already fallen out of it. The Q1 IPA Bellwether report stated marketing spend was up, but main media spend was the biggest segment of decline (signalling big ticket ad campaigns are going down).

We saw decisions held back until the general election was called, then they were waiting for the outcome (as if we didn't already know!). We've seen C-suite agency movers and shakers like never before.

All in all, we're describing H1 as erratic. Leading to longer lead times, sign offs and conversions.

We can't say we'll make sense of it all. However, playing at the intersection between brands and agencies, we have a unique perspective that we'd like to share.

Here are a few of our key observations from the last six months.

We hope you find them as fascinating as we do!

The New Business Market January to June 2024

By Paul Phillips

As we head into summer vacation time who amongst us will be looking forward to some respite from an active H1 new business market and who will be more concerned about their agency's new business growth targets for the year and wondering how they are going to deliver them?

Analysis of new business activity for the first half of the year indicates an overall year-on-year decline of 20% in the volume of completed pitches, which is a slight improvement on the comparable figure of -23% for the same period 12 months ago.

A summary of all activity split by discipline is shown below:

	January – June 2024 v 2023	January – June 2023 v 2022
Total Market	**-20%**	**-23%**
Advertising & Integrated	-21%	-22%
CRM/CX	-26%	-12%
Digital	-24%	+3%
Social	+17%	+35%
Media	-4%	+2%

Only completed reviews reported | PR not reported as insufficient accurate data | Data sourced from www.aarnewbizmoves.co.uk

A lack of scale advertising and integrated opportunities

While opportunities have declined by one fifth, which is of concern to those agencies with an over-reliance on growth through net new business, the market sentiment is one of mild disappointment at the lack of scale opportunities so far this year.

There have been only four completed reviews with billings reported in excess of £20m - Molson Coors, Perrigo and Pfizer (both global) and Vodafone, which announced their result in early 2024.

All other opportunities where billings have been reported were below £20m and, while it's recognised that billings are not necessarily an accurate reflection of the commercial opportunity, in the absence of more accurate data, it's the only proxy to use.

Undoubtedly, there was other commercially significant business won for which no billing figures were reported (Co-op, Uswitch, EDF Energy and Iceland) but, overall, when looking through the lenses of fame, fun and fortune, it's the last category - fortune - where there have been less scale opportunities than agencies would have hoped for.

Pitches for CRM/CX continue to be few and far between

The data would suggest that those agencies delivering CRM/CX expertise and solutions need to focus their growth efforts beyond the increasingly shallow waters of the new business market as the H1 2024 decline in new business opportunities has more than doubled vs the same period in 2023.

Given the importance of and investment in all things customer we have to ask what's the explanation for the continued decline in CRM/CX new business?

Previous AAR commentary has pointed to the investment made by brands in tech and customer-focused platforms, a consequence of which has been greater reliance by clients on incumbent agency partners to help leverage the power of all this new kit.

Another contributory factor is the in-house CRM/CX capabilities that 20th century brands have built and that 21st century businesses have created from scratch, both negating the need for services that were once the sole domain of external agencies.

Then there is the growth of agencies offering multiple capabilities that can service the full customer journey be it under a single agency brand or connected family of expertise, removing the need for their clients to look to the wider market when a new marketing service is required.

Whatever the exact reasons, the decline in opportunities for agencies looking to grow through open market competitive pitching appears to be not just a trend, but the new marketplace norm.

Digital reviews down by a quarter

There were 24% fewer digital pitches for creative services in H1 2024 vs the same period last year. Given that everything is digital and has been for a while, the long-term future of digital-only reviews would also seem to be in question.

And it's not that these digital accounts have been won exclusively by specialist digital agencies, which may have suggested a capability gap between them and full service agencies with digital expertise.

The ebb and flow of CMOs choosing to have more or fewer agencies will always have an impact on the market, but current preference is for fewer agency partners which will be another contributory factor to the paucity of digital reviews.

Social continues to outperform the market

As can be seen by the figures, social is the poster child of pitching (pun intended and no apologies!).

There are two dominant trends that are working in parallel and, unusually, in opposition. The first is the consolidation of disciplines into single agencies with multiple areas of expertise, most notably a coming together of social and PR.

The second trend has been the appointment of single discipline specialist agencies, most notably influencer briefs being separated from social briefs, and content briefs being split from advertising and PR opportunities. We interpret this as suggesting that there's still a significant enough delta in the expertise and capabilities that single discipline influencer and content agencies offer for brands to add them to their roster of agencies rather than appointing an incumbent agency with a wider suite of services.

You're always going to be pitching if you work in media

A 4% decline in the number of media pitches is materially insignificant, and the reality is that a significant proportion of brands will be pitching their media at any one time throughout the year amongst a relatively small universe of media agencies.

Add to this the global super tanker media pitches that are ever present in which the network media agencies are either an incumbent and so having to defend, or a non-incumbent that can't afford to ignore the opportunity, the result of which feels like a continuous conveyor belt of media pitches.

All this adds up to it being a busy time for media agencies across domestic and global opportunities - HP, L'Oreal, Pernod Ricard and Singapore Airlines have all completed in H1 2024 with Amazon, Unilever, Sky and eBay still in the throes of their review at the time of writing.

We anticipate a buoyant second half of the year in media, so take your vacation while you can!

Burning Platforms research

By Paul Phillips

In partnership with The Drum, AAR recently undertook some research to see what was keeping CMOs up at night. Unsurprisingly, demonstrating effectiveness and keeping up with the rapid pace of change were the key culprits.

Background to the research

Across Q4 2023 and Q1 2024, we conducted our latest research combining quantitative investigation amongst 100 CMOs supported by more in-depth qualitative interviews with six leading marketers (Becky Moffat CMO HSBC, Dan Daly Group Marketing Director Halfords, Benjamin Braun Vice President CMO Samsung Europe, Sharry Cramond Marketing Director and Director of Loyalty M&S, Helen Whetton Brand and Marketing Director BT Business and Emma Botton Group Marketing Director Tesco).

The focus of the research was to ask what's keeping CMOs awake at night; not the first time this has been asked of the marketing community, but the answers are always of interest to agencies, and indeed other CMOs.

Seven key takeouts

Some of the issues identified were as we had expected but with a different level of emphasis than we have previously heard, while there were other issues that we were hearing about for the first time.

Summarised below are the seven key themes and, if you want more detail, the full 30-page report can be accessed here.

1.

The CMO must demonstrate the tangible impact of their marketing efforts internally to their CEO, CFO and the board of directors. They need to identify a direct link between all marketing activity and the commercial impact it has on the business. Without this they lack credibility within their own organisation.

2.

Whatever the marketing operating model, CMOs are saying it is in a permanent state of change with re-invention and re-purposing being the norm, whilst still having to deliver their annual marketing plans. But even when a new model has been adopted, getting it to work effectively is still a challenge, not least because there is no internal marketing operation function to orchestrate and manage the new model and required ways of working internally and with external agency partners.

3.

The challenge to attract and keep the right talent is felt as keenly by CMOs as it is by agencies. Two significant factors are that the type of talent marketing departments require has changed, with, for example, a data scientist being more important and attractive than another classically trained marketer. Add to this the fact that tier 1 talent is no longer the exclusive domain of the full-time employer and, as such, a more fluid and flexible approach is required to attract the best.

4.

Measurement is critical; marketers recognise that to be taken more seriously within their organisations they need to apply a degree of rigour to what they do that has not always been there. However, 47% of those surveyed cited an inability to measure the right things, or to measuring them but learning nothing.

5.

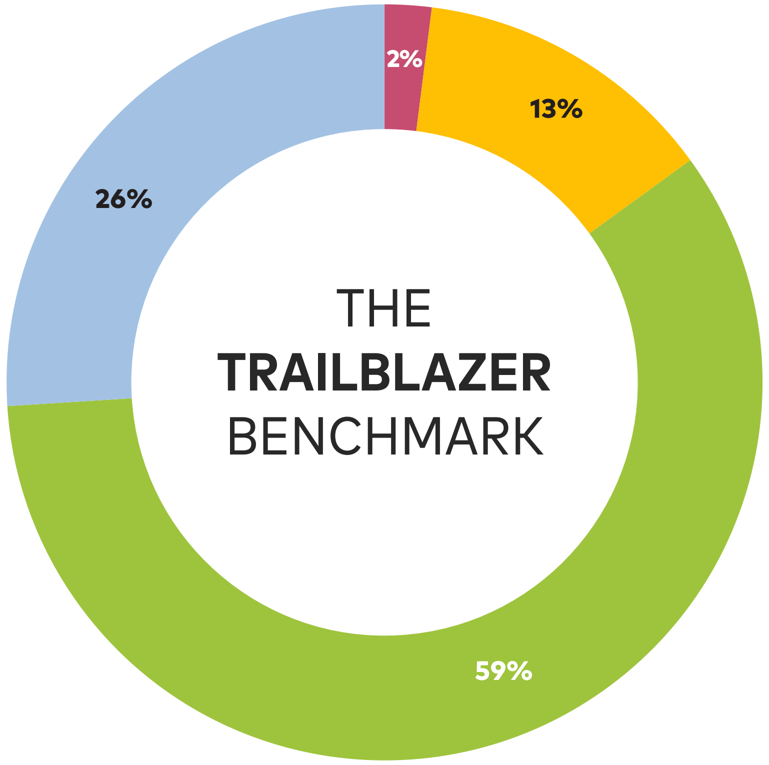
Marketers are quickly focusing their attention on how AI can contribute to the ambition of faster, cheaper, better (ideally all three but two would be good). The consensus is that we are still in the experimentation stages of Gen AI with a lot more to be learnt before brands and agencies can marshal its full implications. But the speed of adoption will be more rapid than any other new technology.

6.

Creativity is recognised as a growth accelerant and exists as much in data analytics, media strategy and customer segmentation as it does in the creative department of agencies or the in-house studios of marketing organisations. The test for CMOs is to generate an environment in which the creative boundaries are continually challenged.

7.

Growth is the north star, however, finding new opportunities for growth is more difficult in uncertain economic (and political) environments. Add to this the speed of change driven by technology and you can see why, when asked to segment their companies into one of four predefined categories, the response was as follows:



Backburners
Recently invested in marketing operations resource, and it needs work.

Firefighters
Put operations front and centre, but find themselves constantly firefighting.

Flamethrowers
Have made lots of big changes (to teams, CRM, in-housed, introduced new platforms) but are still struggling to make everything work.

Trailblazers
High performing, fully integrated. Regularly reviewing entire marketing ecosystem and measuring success.

What does all this mean for agencies and how can AAR help

Hopefully you already recognise some, if not all, of these challenges from working with your clients and are responding accordingly.

The agencies that are more likely to thrive will be those that can help their clients successfully navigate these challenges, and the future ones they will face. Easier to say, far harder to deliver.

This research offers more evidence that marketers need to be successful not only in driving marketing strategy but have just as much expertise in driving operational strategy to help achieve their ambition.

AAR's consultancy that focuses on supporting CMOs to address these operational challenges is gaining increasing traction as ***the how*** of marketing has become as important as ***the what***. We have a fundamental belief that a fully optimised operating model supported by the right people, processes, partners and performance metrics will enable marketers to achieve their desired growth and success.

The desire for the 'end to end' agency model is driving M&A

By Tony Spong

The trend is clear. If end-to-end data driven, customer centric marketing is the goal, then the route agencies are taking is M&A. Not just because organic growth is hard to achieve at the moment, but it's too slow to meet client demand for more joined up thinking and capability. The race is very much on.

The hope, of course, is to dramatically increase client tenure if you have true end-to-end capabilities across data driven marketing. The number of pitches in this space is already decreasing as agencies make themselves more 'sticky' and we'd expect this trend to continue.

The latest addition into in the end-to-end story has been digital media, not to mention how AI will help drive efficiency and effectiveness across it all.

And it's not just here in the UK but in every major market in Europe that you will find the creation of mini groups all striving to build the necessary capabilities to deliver on this goal and support their clients as they, too, expand into new markets.

One major consequence of this activity is what happens next? To grow into other markets, these groups will struggle to find a suitable target as they will already have been taken by someone in that market who will equally be looking to come the other way. To get the best fish you have to be at the market when the boats come in!

The US is a natural territory for expansion given the size of the digital market, but the same applies there, to some extent. This would suggest that group acquiring group may be the next stage of M&A growth.

We'd expect that M&A's will start to slow and then we'll wait to see what happens next. Some will, no doubt, want to be the biggest while others want to do things differently and focus on a way of working that will attract certain clients. Each will take up their position.

Remuneration models are evolving: Masters of transformation – just not of our own?

By Vonnie Alexander

The agency model is changing. Changing in response to evolving client needs to deliver the north star 'end to end' solution, and reviewing the hourly rates model that is squeezing both margin and talent from the industry.

For as long as I can remember, agencies have used the same cost model with some relatively small changes. They have always charged for people and hours – through retainers, project fees or a combination of both - though in the past there was also commission on production costs across all the disciplines.

Media agencies, of course, have always been a little different with largely commission-based models, and they have also had to evolve towards a more transparent approach.

Fundamentally, agencies seek to recover their people costs, their overheads and make a relatively modest margin on top.

As the agency community grew, and competition became more and more fierce, clients became more demanding and, after the expenses scandal of 2009, coupled with the rise of procurement in marketing services, a move towards greater transparency in business generally was promoted and welcomed.

That saw the end of commission for many and a greater scrutiny of the people, hours and mix that made up agency fees, often leading to uncomfortable conversations with clients about overheads and margins. Something that still feels a little strange.

I can recall numerous conversations about whether agencies were managing their overheads well or whether a profit margin of 12% was acceptable as opposed to one of 15%. It sounds faintly ridiculous to even write that. When have you bought anything else, like a car or a meal, and asked to look at the company's overheads and margin predictions before committing to a price?

The downsides of this low margin model are numerous but most obviously in a service industry like ours, it means that agencies can rarely afford to invest appropriately in their largest asset – the people. And that upskilling and development of people is even more critical now as the pace of change quickens, the complexity of the marketing discipline has evolved so much, and there is an obvious leadership gap across many industries, including ours.

It can begin to feel as though it is increasingly becoming a race to the bottom. So, we appear to be stuck in an old model; one that might not work for much longer if it still works at all, and yet no one can, or maybe even wants to, find a way out.

Certainly, that was one take out from a dinner hosted by AAR for a number of agency CEOs earlier in the spring to discuss this very subject. There was lively debate and discussion around the topic of agency remuneration models, with some enthusiasm for changing things, some creative ideas about how we might do that and even some agencies who are already selling solutions rather services, or outcomes rather than outputs, or working on performance or success-related measures.

The truth is that they are few and far between and often offered on one or two projects as opposed to across the board. Nevertheless, small steps in the right direction.

At the end of the evening, we were left with an overwhelming sense that it was just too hard to effect change, that no one wants to be the first to rock the industry boat, that maybe there was no real appetite for this and that it would just be easier to stay where we are.

But this goes against everything that we stand for or advocate as an industry. So now more than ever, we need a dose of "Physician, heal thyself!".

I have sat in several meetings in just the past week, where agencies have talked with great enthusiasm and energy about transforming their clients' businesses. To take just one example, for the automotive industry it is a move away from dealerships to direct to consumer sales. A huge shift and one that they are undaunted by. But turn our attention to ourselves and it becomes a little more challenging.

Consider the seismic changes that AI could bring to how agencies service clients' businesses in the future and this begins to feel more urgent.

Imagine a world where the agency's income grows or stays the same, but the workforce has halved. Imagine a world where the two weeks it used to take to trawl through research papers and insights is done in minutes or where ideas (the obvious ones) are produced with a click. The ability to automate tasks, to save time and money will only reinforce the need for agencies to be adding strategic and creative value. This is the opportunity to think again and revisit this pricing straitjacket.

You could argue, and it is a question that we ask of ourselves, that the agency selection process contributes to the very problem. That's why we at AAR are increasingly having conversations with clients about their whole approach to marketing, not just about pitching. We look at their operating models across people, processes, partners and performance to determine how best to move forwards and sometimes that will result in a selection programme but, increasingly, not always.

The team at AAR understands that change can be challenging, and we know that just by starting the conversation we are one step closer towards making that change. As champions of best practice in the industry we know that we need to and can do more.

We will undertake to engage with the wider industry – client and procurement teams, for instance – to understand their perspectives. We will seek out and champion the early adopters of change and make sure that it is both talked about and shared widely. And we have undertaken to create a resource of different commercial models that we can all start to use and deploy.

It is part of our commitment to the industry to keep evolving, to engage all parties on both sides of the debate, and to make sure that we are fit for a future that will undoubtedly change things beyond all recognition.

Latest news from AAR

By Kirsty Boyd

A hearty congratulations to those of you who have recently graduated from one of our training courses.

Many of you will already be familiar with the format of our Business Development Apprenticeships but, for those in the dark, delegates are teamed up and tasked with creating a winning chemistry meeting. We had four fabulous teams competing to win the business of Hiscox during our most recent Creative BDA, and another four wonderful teams on our Media BDA who were pitching to Netflix. Thanks go out, as always, to both of these brands for joining us in the final chemistry meeting presentations and giving valuable feedback to the delegates.

We've also seen over 120 leaders from 70 businesses complete our No Bullsh*t Leadership course in association with Chris Hirst. Graduates from the likes of Accenture Song, Omnicom, Publicis, Tesla, BBC, Direct Line and Virgin are now back out in the wild with new skills and an unlocked confidence to stand proud as our next generation of leaders.

In June, we took part in The Marketing Society's Sprintathon at Battersea Park's athletics track. We took half a day out of the office to do our bit in running a collective sub-2-hour marathon, alongside lots of (quite frankly very fast!) fellows from within our community. We had a fantastic day and helped raise vital funds for Stand Up to Cancer, which made the week-long recovery of sore muscles somewhat worth it! We would totally recommend it if you can join next year.

Lastly, here's a list of our upcoming seminars for subscribing agencies:

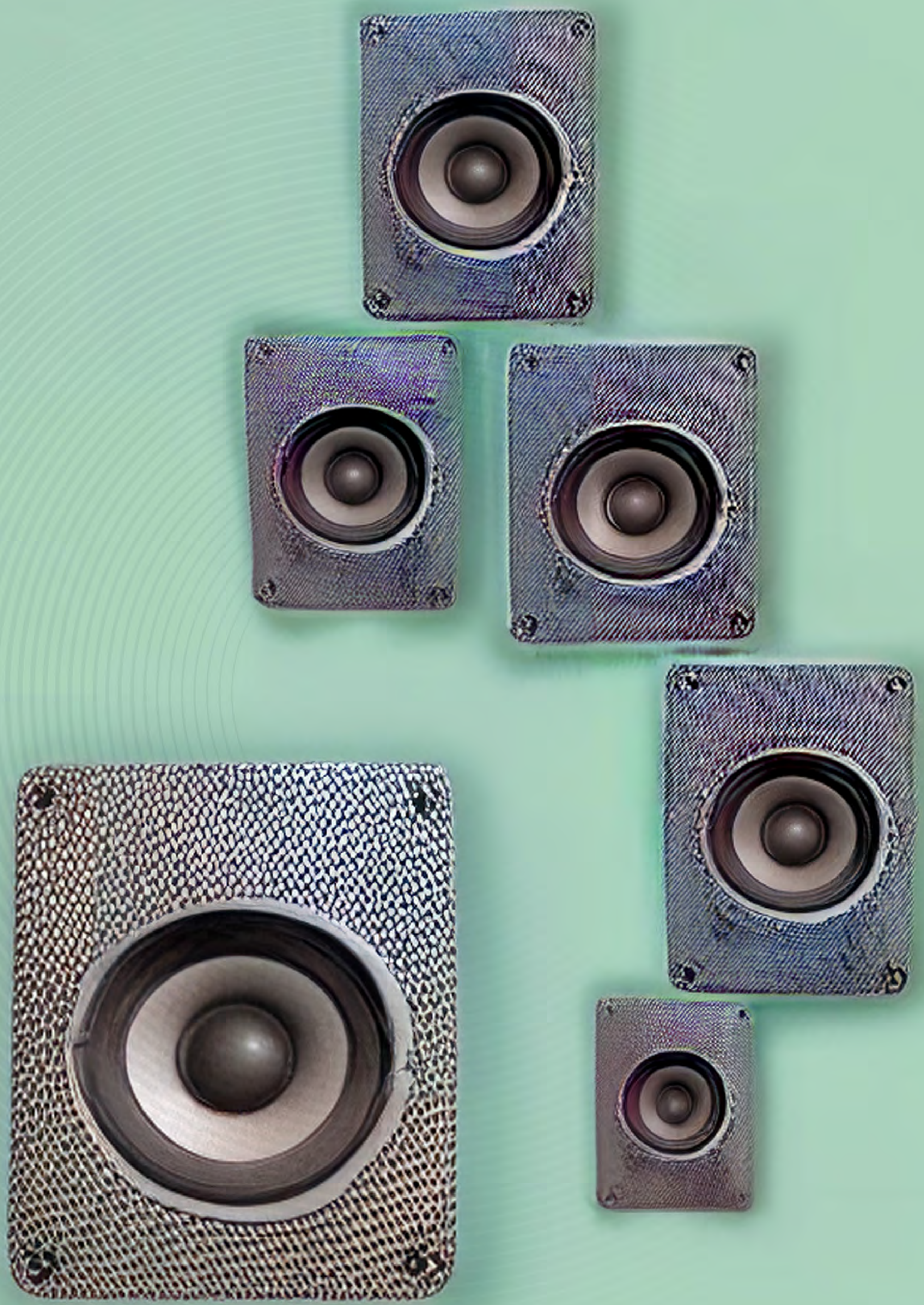
Sept: 'How to Win Pitches with Behavioural Science & AI' with Jennifer Clinehens

Oct: 'Retention Planning' with Tony Spong and Vicky Gillan

Nov: 'Engaging and Influencing with Storytelling' with Trenton Moss

Bookings open three weeks in advance of each online session and your AAR agency subscription entitles you to 5 free places on each of the seminars.

Get in touch if you want to find out more.



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