

RETHINKING THE AD AGENCY MODEL

TOP STRATEGIES FOR THRIVING
IN A CHANGING INDUSTRY



EXECUTIVE SUMMARY

Client and employee expectations are changing, and that requires new approaches to running the advertising agency. Today's evolving technology is opening the door to those new approaches, with cloud-based enterprise systems that provide centralized, consistent data and a 360-degree view of operations. As a result, agencies can make data-driven decisions about managing the business, adopting innovative pricing models and leveraging the blended workforce. They can have greater visibility into the business, helping them to increase agility and pursue operational excellence—and meet rising expectations with quality work while keeping costs down.

The Challenge of Ever-Rising Expectations

Anyone watching the advertising agency space knows that it's a different world today, with globalization, rising costs and ever-increasing competition.

At the same time, massive digital disruption is dramatically reshaping the industry landscape. Consulting firm PWC forecasts that globally, digital advertising will be a \$240 billion business by 2019, up from \$135 billion in 2014. But that is just one aspect of the fundamental and widespread change being driven by digital disruption. Technology has altered the way that consumers communicate, access entertainment, bank, shop and, especially, interact with brands. They want content tailored to their interests and needs—and with ever-increasing competition for their attention, they want it whenever and wherever they choose.

For advertising agencies today, change is not only extensive—it is also rapid. Consumers and technology are changing with unprecedented speed, and that is accelerating change in the needs of clients and internal teams. What's more, coping with change no longer means keeping an eye out for the next big thing in advertising. Instead, change is virtually constant, and it is multifaceted. That means agencies need to be thinking about innovation on dozens of smaller, fast-moving fronts—quickly exploiting opportunities that arise, and then just as quickly moving on.

Change is also taking place on another critical front—client expectations. As always, clients are looking for creativity and innovation—and, if anything, they are looking for more of it. But their expectations for what they get from their agencies goes beyond the purely creative end of the business. Clients are looking for speed, as they themselves adjust to shifting consumer tastes, and often find that their in-house staff cannot keep up. They want more specifics about the return on their advertising investments, about costs, and about how the agency can continue to improve service. They want efficiency, and they want transparency in their interactions with their agencies.

Agencies cannot address all these growing demands by simply working harder at doing the same things—not profitably, at any rate. Indeed, it is increasingly clear that what worked yesterday is not likely to work tomorrow. Instead, agencies need to rethink the way they work, and the way they run themselves. They need tighter control over the business that will allow them to balance the needs of the client and the agency, for the success of both. And they need the flexibility to allow their creative resources to innovate, explore new opportunities and, ultimately, adapt to clients and change.

In short, a changing industry requires new approaches to running the agency—and evolving technology is enabling those new approaches. Cloud-based computing is making it possible to deliver centralized enterprise resource planning (ERP) systems as a service. That means that agencies can have cost-effective access to a wide range of sophisticated tools and capabilities that draw on centralized, accurate business data—that is, on a complete, 360-degree view of the business. This type of technology is already reshaping business operations in other industries. And today, it can do much the same for advertising agencies—and enable the best practices needed to succeed in today’s environment.

The Data-Driven Agency

A cloud-based ERP can provide a foundation of centralized, accurate and timely information for ad agencies. This foundation can be used to drive efficiency and consistency in a range of business activities. These include:

- **Sales and forecasting**, helping to reduce customer-acquisition costs, increase understanding of the potential ROI of campaigns and increase marketing effectiveness.
- **Project management**, helping to provide insights into burn demand and sales effectiveness and close ratios, and improving pipeline management.
- **Resourcing**, helping to improve profitability by campaign stage and by customer, as well as strengthening asset and staff management.
- **Media and procurement**, helping to improve cost management, insertion-order reconciliation and purchasing compliance, as well as shortening lead times.
- **Execution and delivery**, helping to improve on-time delivery, strengthen cash-flow management, and reduce cycle times and cost-to-serve.
- **Billing and revenue**, helping to improve billing and receiving, and reducing delivery and cost-to-close project costs.
- **Financial and analytics**, providing better visibility into the business while helping to increase staff productivity, revenue recognition and cash management.

AGENCIES CAN USE ANALYTICS TOOLS TO DEVELOP A DEEPER UNDERSTANDING OF PERFORMANCE, UNCOVER ROOT CAUSES OF PROBLEMS AND MAKE MORE-ACCURATE PROJECTIONS.

Technology Enables New Ways of Running the Agency

To understand how today's technology can help agencies, it's important to understand how their current systems can limit their ability to respond to change and operate efficiently. At heart, the problem is fragmented technology. Too often, disparate and incompatible applications—and, often, old applications—are used to track and manage different parts of the business. This means that people have to manually bring together data from different sources, and then spend large amounts of time with various spreadsheets to consolidate and analyze it. Working with that siloed information takes time and money. It tends to introduce delays and errors. And it leads to time-consuming and costly fire drills when clients ask for information.

In spite of all the effort that goes into that traditional approach, it usually fails to provide a timely window into the state of the business. That is, it doesn't create the kind of visibility that managers need in order to make sound business decisions and make sure that budgets and projects are on track. All of this is complicated further when an agency has international operations, bringing far-flung employees and more nonintegrated systems into the mix. And disjointed information makes it difficult to create and communicate clear strategic plans, and to provide the kind of direction that drives employee motivation and commitment.

A cloud-based ERP replaces that patchwork of systems with a "single source of the truth"—centralized information that can be accessed by the various tools and applications needed to run different parts of the agency. Thus, everyone is working with the same consistent information—there is less friction involved in gathering, accessing and sharing information. Tools that support business functions such as finance, media procurement, forecasting and resourcing can work together seamlessly.

This single source of the truth provides a foundation for new approaches to managing the agency. In particular, agencies can draw on this kind of technology to adopt a number of emerging best practices. These include:

- Use data-driven insights—not your gut—to manage the business.
- Embrace the blended workforce
- Rethink pricing models
- Be agile: Accelerate innovation, enable creativity and reduce risk
- Pursue operational excellence and greater efficiency—constantly

These practices are discussed below.

Use data-driven insights—not your gut—to manage the business.

With fragmented systems and information, agency decision makers have to fill in gaps in data with educated guesses and gut-level hunches. That makes it difficult to respond to change or drive improvements and sustain performance—in

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both back-office operations and client work—in a systematic fashion. In addition, agencies struggle to give clients the performance and ROI information they want. In essence, if the agency does not have transparency into its own operations, it cannot provide clients with heightened transparency into campaigns and results.

With a 360-degree view of the business, on the other hand, managers and other decision makers can work with integrated, accurate information about agency operations—and track the entire business in real time. They can also use that consistent data as a foundation for integrating and streamlining end-to-end processes, such as financials, sales and service. And with a centralized source of consistent information to work with, they can use analytics tools to develop a deeper understanding of their data to manage performance, identify trends, uncover root causes of problems and make more accurate projections for the business.

In managing client work, for example, agencies can constantly evaluate the business performance and profitability of a given campaign or project throughout its entire lifecycle—from bidding to proposal to invoicing. They can keep a close eye on time and expenses, and make adjustments sooner rather than later in order to optimize both the time and money being invested. If changes are required, real-time data will enable them to isolate performance issues and make change orders easier to identify. And with real-time information about the campaign, they can make data-driven decisions about how to best adapt to changing client needs and demands.

Data visualization is important for leaders and contributors alike. With a single cloud platform, performance information can be delivered through dashboards that keep executives up to speed on the state of the business. These dashboards can provide a concise overview of key performance indicators, from financials to project workflow—meaning agency decision makers do not have to rely so heavily on their gut-level instincts.

Finally, all relevant data can be easily pulled together and shared with clients, giving them transparency into spending and performance, if the agency chooses to share that information with them. The agency can help the client understand costs and results, and deliver data-supported proof of their campaign’s impact. Project and performance data can also be used in pitches for new business to underscore the kind of potential value that clients might expect from a new campaign.

Embrace the blended workforce.

Agencies’ workloads tend to rise and fall, especially at a time when clients are focused more on project-based work rather than long-term, retainer-based relationships. In addition, some industries are more seasonal, driving peaks in demands at

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various points in a calendar year. At the same time, there is tough competition for top talent. As a result, agencies typically augment their W2 employee base with freelancers and contractors—which can be expensive. The use of this blended workforce makes it difficult to track and manage spending on talent, particularly when the agency is operating with fragmented systems. That lack of insight into costs can in turn make it difficult to maintain profit margins. In addition, today's agencies often operate with employees and freelancers in remote locations. That means resource decisions and communication hand-offs all need to be linked with one another, and with the agency, to enable timely collaboration and information-sharing.

By adopting a centralized business platform, agencies can have a comprehensive view of the multifaceted, blended workforce, and manage it as a unified whole. They can have key data about all their workers, and provide consistent information and tools to those workers—whether they are employees or outside the agency, or on-site or in another country. Being able to “see” the entire workforce, and then arm all relevant stakeholders with common tools and data, makes it possible to integrate and manage blended teams, and enables closer collaboration across traditional boundaries. In short, agencies can draw on their people to deliver a better product to clients at the right margin.

With a unified view of workforce talent levels, agencies can collect and store information about employees' skill sets in the system. Managers can then determine what skills are available for a project, and where they are in the workforce—or where there are gaps in skills and competencies that need to be filled with freelancers or full-time hires. This kind of central “talent catalog” can streamline the staffing of projects significantly, helping the agency to deploy its workforce more flexibly.

Perhaps most important, the technology can improve the agency's ability to manage workforce costs. Self-serve tools can allow employees to input their time and expenses themselves, whether they are on-site or in remote locations, easing administrative workloads and helping to ensure that cost information is accurate and up-to-date. Managers can easily view which projects people are working on, and who is available to staff new client work. Staffing and traffic-management tools can draw on workforce and project data to help managers ensure that staff members are being used to their full capacity, and to drive both individual- and project-level profitability.

With these capabilities, agencies can do more than just blindly struggle to keep a lid on freelancer and contractor costs. Instead, they can optimize their spending across W2 and outside workers, and focus on having just the right resources needed to keep the client happy—without unnecessary spending on talent.

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Rethink pricing models.

Today, clients are constantly looking for lower costs and increased performance. To meet those expectations, agencies need to excel at providing accurate proposals with tight, detailed budgets that enable the agency to deliver quality work at competitive prices, without endangering agency profitability. Going even further, a growing number of clients today are looking for new pricing models, including performance-based models where the agency has “some skin in the game.”

Whether the agency is “sharpening the pencil” in creating proposals or offering innovative performance-based pricing, access to comprehensive, accurate information is key to success. To make these approaches work effectively, agencies need to be able to understand the performance of past campaigns, the workforce, agency costs and other factors.

With a centralized, cloud-based ERP—and its complete view of the business—agencies can have the performance and cost information needed to support:

- More accurate pricing.
- Higher win rates for the “right” business.
- Performance-based pricing.
- The ability to demonstrate financial return to clients.

Be agile: Accelerate innovation, enable creativity and reduce risk

Digital disruption, changing consumer expectations, and increasing client demands require the ability to adjust and pivot fast. Increasingly, agencies need to quickly identify and exploit new opportunities—and especially smaller niche opportunities that may be short-lived. This means that agencies will often need to approach opportunities on a kind of trial-and-error basis, and essentially “see how it goes.” All of this can bring increased risk if they are working with incomplete information.

With an analytics-enabled 360-degree view of the business, agencies can strengthen their ability to spot consumer, technology, and advertising trends and shifts early on. They can work with a better understanding of potential opportunities and of how the agency’s resources fit with those opportunities—which helps shorten the pitch-to-cash cycle. Once a campaign is launched, they can monitor delivery, production and business performance in real time.

Altogether, decision makers can have the information they need to pursue “fail fast” strategies—try a new approach, monitor feedback and adjust the approach to keep it on track, or terminate it if its potential turns out to be limited.

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Agility also depends on the nature of the agency's systems. The cloud-based ERP approach, with software capabilities being delivered as a service, means that agencies have the ability to scale their systems up or down to adapt to changing business demands. In addition, because the systems are managed by a vendor, the agency is no longer responsible for keeping up with technological innovation. Instead, that is handled by the outside provider, for whom technology is a core business.

Pursue operational excellence and greater efficiency—constantly.

Competition in the industry is increasing, and clients are more interested than ever in negotiating pricing. At the same time, agencies face increasing costs. Taken together, these factors mean that the need to keep increasing efficiency and optimizing processes is critical.

Accurate, comprehensive information is key to succeeding in those efforts. With integrated data and processes—enabled by a centralized ERP—agencies can have the kind of detailed insights that help them understand costs and confidently prepare estimates and proposals that reflect today's often-tight budgets. They can also automate more activities, including the management of workflows in the agency, for greater efficiency.

Meanwhile, that single source of accurate information lets agencies use analytics to uncover process bottlenecks and cost drivers and then drive improvements in those areas. For example, with the ability to tie change orders to actual work, agencies can limit the kind of scope creep that can drive up costs as a project is executed. If budgets need to be increased to meet changing client needs during a project, the agency can have the hard data needed to support intelligent conversations with clients about the impact of their change requests on costs. These conversations turn project management office leaders into profit center thinkers.

Agencies can also gain visibility into historical accounts and agency financials. At the same time, they can develop predictive insights for use in more accurate forecasts and better planning, and work with a forward-looking view of factors such as demand, agency capacity and budgets. The result: an improved ability to ensure on-time, on-target execution of work, while effectively controlling costs.

Taking Control of the Business— and Finding Opportunity

Technology and digital disruption are changing the way that brands reach people—but they also have the potential to change the way agencies operate. They are enabling new approaches to increasing visibility into the business, managing the workforce and interacting with clients. And they are making it possible to bring new levels of flexibility and agility to the business—which is key in an era of constant change. If an agency can find its competitive advantages in the market and drive focus, it will grow faster, and grow sustainably.

It's clear that today's centralized, cloud-based technology can help agencies operate with a comprehensive—and objective—view of the entire business. That means decision makers can use hard data, rather than guesswork, to balance the needs of the business and the needs of clients—while building trusting relationships with those clients.

That comprehensive view can also help agencies leverage their chief asset—their people. In the end, the effective operation of an ad agency will always depend on talented people. To succeed, however, agencies need to motivate people, make them want to be a part of the agency and enable them work together efficiently, with a clear focus on shared goals. Today's technology helps agencies do just that—equipping and empowering people to make the most of their talents and ultimately, drive success for both the agency and its clients.

For more information about how cloud-based ERP can help you manage your agency, visit us at www.netsuite.com/portal/industries/advertising.shtml.

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