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"New Study: Is There a Trend Towards Consolidating to Multiple Agencies within a Single Holding Company?"

By Arthur Anderson

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In a recent report by Morgan Anderson in connection with a study for one of its global marketer clients, an issue was whether there exists a trend towards use of multiple agencies residing within a single agency holding company. We did this work by survey, interviews and our own internal experience in the agency compensation and agency assessments/search areas.

The following is an executive summary and data from the report.

Thank you to those who participated in this effort.

A. STUDY BACKGROUND

1. A first approach for the study was to verify how large multi-national marketers select, and utilize their advertising and other marketing services agencies. Questions asked by the client for the study to answer:

- Do clients assign their marketing services needs to several different agencies within the same agency holding company?
- Or, do they use them on a more limited basis, opting to select agencies on a Best-in-Class (non-holding company) basis?

2. A second approach was to convene an Insight Group comprised of client marketing and procurement professionals, external industry consultants, and senior agency executives using a customized questionnaires relating to selection and remuneration of agencies. Areas covered included:

- How agencies are remunerated and current trends
- Use of incentives and current trends
- Use of holding company agencies and current trends
- Agency consolidation by global marketers and current trends

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B. EXECUTIVE SUMMARY

Key findings:

- **No, Not a Trend to Single Holding Company.** Major marketers consider using multiple agencies within a single holding company, *but, in fact, generally do not end up doing this.* When asked to name specific marketers who use multiple agencies within a single holding company, or those who contemplated agency consolidation with this objective in mind, *no one could name specific examples.*

- **Integration by Holding Companies Lacking.** While use of multiple agencies within a single holding company or consolidation of agencies under one holding company roof is frequently considered, it is infrequently done due, in part, to the inability of the holding company to integrate talent across its various agencies.

- **Economies of Scale?** Major marketers indicated there is a high client cost to consolidation of agencies within a single holding company, and the incremental cost of doing so on the order of $1 million plus.

- **Agencies Seek its own "Silo" Profit.** For the most part, holding companies exist to "hold" agencies, and not to integrate or collaborate them, although they sometimes aggressively market this. The focus remains on each agency within the holding company to deliver a profit goal; agencies *are not structured for integration or collaboration with sibling agencies unless the client is highly motivated and skilled to making this happen.*

- **"Best-in-Class" Agency Selection Prevails.** Clients take a "Best-in-Class" approach for their agency portfolio pretty much without regard to holding company parentage but, rather, for the best agency available for that client's needs.

- **Agency Remuneration a Factor?** The form most favored is labor-based fee, or a hybrid of fee + performance incentive. Also emerging is "value remuneration" but the meaning of this varies so substantially it is in the eyes of the beholder and the variations on this theme are many. It is however, in Morgan Anderson's opinion, an area that offers great opportunity to clients, particularly where it is constructed with a fixed retainer fee for part of the annual remuneration plus a variable fee based on project deliverables.

C. SOME DETAILS

Use of Holding Company Agencies: The Facts

Our Methodology: In addition to diagnostics relating to this subject with marketers and other independent consultants as referenced in the 2011 Study, MAC analyzed the use of all agency types (full service, creative, media, digital, PR, promotion, etc.) across a broad spectrum of

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marketers. Marketers were selected from Ad Age's list of the Top 100 Advertisers: **a)** the largest, **b)** relatively middle sized, **c)** relatively smaller sized marketers, *and* ***d) we added three industry specific companies.***

- **Key Finding: "Best-in-Class" is followed in practice:** We found no "extensive" use of multiple agencies within a single holding company and no particular trend in that direction. Essentially, marketers are attempting to select their choice of "Best-in-Class" agencies for each function from many holding companies. In some cases, there were a few agencies within a single holding company for a particular client, but this was not considerable on any basis. Some of this has to do with geographic needs (i.e., a global network agency is usually not of equal quality or capability in all markets).

- **Key Finding: "Economies of Scale" are not a driving force:** Contrary to the query oft times asked by marketers of whether or not there are 'economies of scale' enjoyed by consolidating all agency types under one roof, our research and experience show that this ultimately does not prove to be the case.

We studied U.S.A. marketers based on relative advertising spending to reach our conclusions:

1. Top 10 U.S.A. Advertisers (U.S.A. Spending $2.0B-4.6B): These included P&G, AT&T, GM, Verizon, American Express, Pfizer, Wal-Mart, Time Warner, J&J, and L'Oreal.

None of these marketers placed anywhere near all of their business within a single holding company. Instead, they used agencies from many sources, including independent agencies. There are some instances where a marketer placed major business within a holding company such as Amex with WPP using O&M and Mindshare, but they also used many other agencies outside WPP. More typically, J&J used DDB from Omnicom, Deutsch from IPG, and JWT from WPP. ***There does not seem to be any trend towards consolidating within one holding company. These marketers continue to seek their "Best-in-Class" agencies, as they have for years.***

2. Marketers 51-60 (U.S.A. Spending from $630M-743M): These marketers included Progressive, Kellogg, Estee Lauder, Samsung, LVMH, Best Buy, State Farm, BMS, Mars and Wells Fargo. We included these marketers in order to juxtapose their agency portfolios with the largest marketers (Top 10).

There were a few isolated instances where marketers used more than one agency from the same holding company, *but no one used all from within a single entity.* Kellogg used Burnett and Starcom from Publicis … *but no one else.* Mars used BBDO and TBWA from Omnicom … *but no one else*. More typically, business was spread throughout many holding companies. The extreme was Samsung using Cheill (house agency), Burnett (Publicis) and BBDO (Omnicom). ***No trend again towards single holding company usage. Just solid use of "Best-in-Class."***

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3. Marketers 91-100 (US spending from $385M-411M): These marketers included Kia, Dish Network, Clorox, Hewlett-Packard, CVS, Dr Pepper, Burger King, Dell, Fry Electronics, and Colgate. These were selected to delve even deeper to ascertain if the pattern of holding company usage changed as the media spend became smaller. ***It did not.***

Typical of this group, Dell used Arnold from Publicis and Mediacom from WPP. Once again there was no trend towards sole holding company usage.

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Should you wish specifics of the study or to learn more, please email Lee Anne Morgan at lamorgan@morgananderson.com or Arthur Anderson at aanderson@morgananderson.com.

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