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HEADACHES IN ADVILLE

As ad agencies get bigger, their problems keep growing. Do global companies really want **one-stop shopping?**

BY RICHARD TOMLINSON

Ben Lukawski is firing up his troops. In a meeting room in Soho, the heart of London's media district, Lukawski has summoned his team to brainstorm about a new advertising campaign. Their client, a consumer electronics giant, is "all about making the real world a bit mad," Lukawski tells them. "So think wacky and weird."

Lukawski, 30, fits most people's image of an ad agency creative director. He has shoulder-length hair and a silver neck chain, and he feverishly jots smart concepts onto a flip chart. But neither Lukawski nor his young colleagues are creatives in the traditional industry sense of the term—the artistic types who devise the images and words. Instead they work for Starcom MediaVest, a media-buying and planning company that belongs to France's Publicis Groupe, the world's fourth-largest advertising conglomerate. "Some people think media planners and buyers are just a bunch of moneymen," says Lukawski. "But the business has moved on. Just as important as the message itself is where you say it."

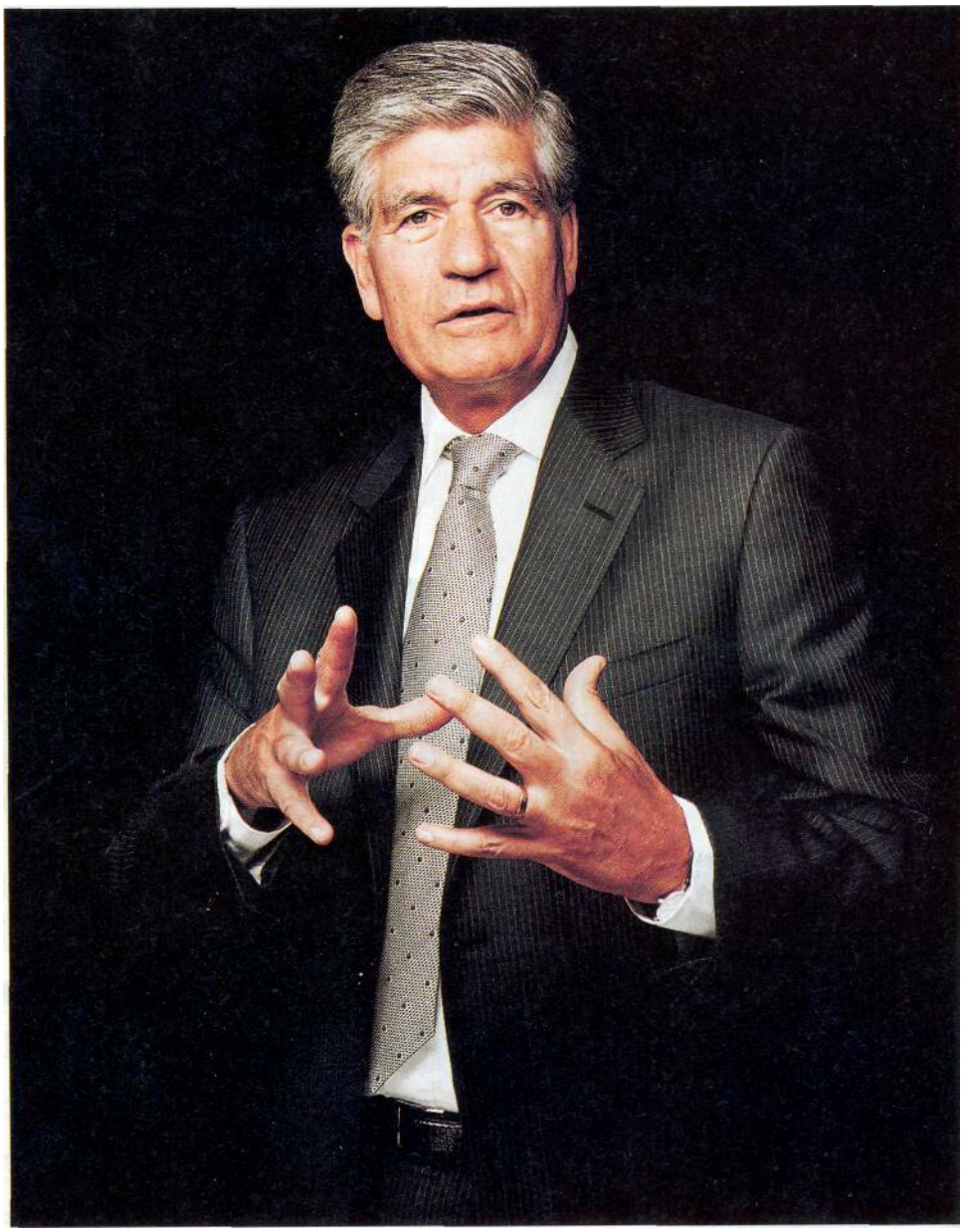
THE MEDIUM IS STILL THE MESSAGE Starcom media buyer Ben Lukawski (standing) checks storyboards for an advertising campaign at his London office.

Lukawski can thank his clients for bringing media buyers and planners into the industry limelight. Over the past decade global advertisers such as Unilever, Nestle, and Philips have pressured the top agencies to spin off their media units into standalone businesses like Starcom and MindShare (part of Britain's WPP group). Multinationals want the cost benefits of dealing with a single worldwide media-buying agency for all their TV, print, and billboard advertising. As a bonus,

they also demand direct access to smart young planners like Lukawski, who can help them navigate the Internet and other new advertising channels. "We didn't mandate the creation of MindShare," says Martin Sorrell, chief executive of WPP. "It was driven by clients and by the markets, which wanted a greater focus on media."

It isn't just media buying and planning that have been transformed by increasingly assertive corporations. Across the global advertising industry, power has shifted decisively from the agencies to their clients, which are no longer prepared to pay fat commissions for a creative process in which they have little involvement. And Europe—home to two of the world's top four advertising groups, WPP and Publicis—is caught in the upheaval.

The power shift isn't discernible to consumers, who see only the ads that appear on television or in magazines. But within adland, the impact has been dramatic. In the past decade the industry has been engulfed by a wave of consolidation as the biggest agencies have scrambled to establish worldwide holding groups that can offer the most cost-effective deals to global companies with multibillion-dollar advertising budgets. The rationale underlying the creation of behemoths like Publicis, WPP, and the U.S. advertising conglomerates Omnicom and Interpublic is the same. According to the holding-group theory, clients not only want to buy all their media space through a single, worldwide division but also to have the convenience and economies of scale that come from dealing with just one company when commissioning creative work for global brands. "Major global clients want major global partners," says Linda Wolf, who retired in April as CEO of Leo Burnett, a division of Publicis.



There's no doubt such an arrangement makes sense for multinationals running identical brand campaigns in different markets. That's what Ogilvy & Mather does for Dove soap, one of Unilever's most successful global brands. It's also clear that the biggest holding groups are capturing most of the world's advertising business. The five largest ad conglomerates—WPP, Omnicom, Interpublic, Publicis, and Dentsu—account for about three-quarters of all advertising revenues.

What's not clear is whether the holding group model works—whether it can deliver the 20% operating margins that top agencies used to take for granted, and even whether clients really want to do all their ad purchasing through a one-stop shop. True, as Sorrell says, major multinationals have forced consolidation on the industry. But many of those same clients are keeping the upper hand in contract negotiations by refusing to buy all their media and advertising services from a single provider. Call it divide and conquer. "The number of pitches to clients that involve media and creative together," says Rick Bendel, chief operating officer at

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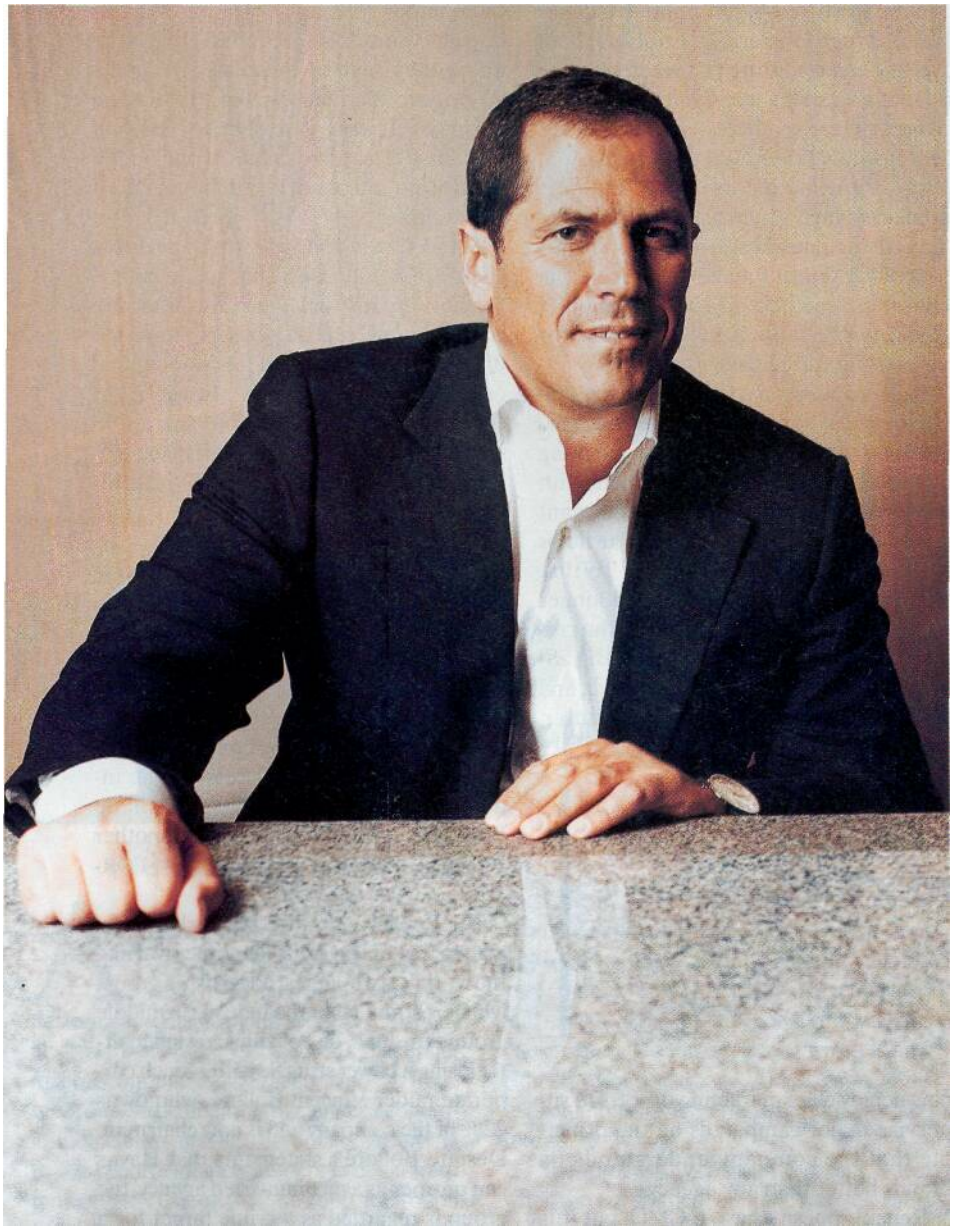

PUBLICIS PRESSURE Maurice Levy (left), chairman of Publicis Groupe, says business these days is stressful. That means more worries for Jean-Paul Brunier, who runs the Renault account for Publicis Worldwide.

Publicis Worldwide, the group's main creative agency, "are fewer than they have ever been."

In a business skilled at delivering upbeat messages, some see a future where the client makes the rules as a place of opportunity. "Nobody knows what's going to happen next," says Kevin Roberts, chief executive of Publicis's Saatchi & Saatchi agency. "Murdoch doesn't know, the magazine people don't know, the cable guys don't know."

But at Publicis's headquarters in Paris, the mood is considerably more downbeat. Founded in 1927, Publicis still cherishes the memory of its founder, French advertising legend Marcel Bleustein-Blanchet. In an adjacent shopping arcade, Publicis executives entertain clients at Marcel, the company's restaurant. But Publicis has changed beyond recognition since Bleustein-Blanchet's death in 1996. After buying Saatchi & Saatchi, it acquired Bcom3 in the U.S. in 2002, bringing Leo Burnett and Starcom into its portfolio and catapulting it into the industry's top tier.

The architect of Publicis's transformation is Maurice Levy, an urbane 62-year-old with close ties to the French corporate elite, who succeeded Bleustein-Blanchet as CEO in 1987. Last year 43% of Publicis's $4.6 billion revenue came from North America, compared with 41 % from Europe. About half of the group's revenue came from advertising, the rest from media buying, planning, and marketing. Judged by the numbers, Levy's bulked-up conglomerate seems to be working: In 2004 pretax profits rose 6.7%, to $714 millio^n. Yet Levy takes little satisfaction from the rise in Publicis's operating margin to 15.3% last year, slightly better than his target of 15%. "We are doing it at a very high price," he says. "It is painful to lower our costs to a point that is very, very difficult to reach."

Much of the pain has come from freezing the payroll while expanding the business. Since the purchase of Bcom3, the number of employees worldwide has remained at about 35,000. They are working harder to bring in more money for the parent group from increasingly tightfisted clients. As Levy wistfully recalls, the time has long since passed when "I could do a deal over dinner with a client." He still dines with his CEO friends at Marcel, but then the tedious haggling with the client's procurement managers begins. "The procurement people always find a way to pay the right price and not a penny more," Levy says. "When they offer you a win-win proposal, you have to understand that they will win twice."

Levy won't discuss the details of contracts, but the wider industry numbers confirm just how tough clients have become. During the 2000-03 global economic downturn, annual advertising expenditure in Europe fell 9%, to $103.7 billion, according to the World Advertising Research Center, an independent consultancy. In effect, clients have wised up to the fact that in the traditional ad industry storyboard they were cast as the suckers. Until the 1990s clients generally paid a standard 15% commission on the amount of print space and broadcast airtime bought for an advertising campaign. "The commission system lasted so long because clients didn't know any better," says Randall Rothenberg, a columnist *for Advertising Age.* They do now—and since 2000, clients have increasingly insisted on paying agencies on the basis of billable time, with additional fees if a campaign achieves performance

targets such as higher sales for the brand.

Levy says he doesn't care how the money comes in, as long as the eventual price for the work is fair from Publicis's point of view. But he concedes that these days, the ad business is "very stressful."

That stress is palpable in a windowless conference room two floors below Levy's spacious office. Each week Jean-Paul Brunier, 44, a global account director at Publicis Worldwide, assembles his team to review current and future campaigns for Renault. More than three-quarters of Renault's global advertising budget is reportedly handled by Publicis, and Brunier is an unsparing perfectionist on behalf of such a major client. He slams one storyboard proposal for a TV commercial as "really boring." A reel from a hotshot film director gets poor reviews. Yet there's much that Brunier also likes—in particular, a bespectacled cartoon character named Hector, the star of a quirky French TV campaign for Renault's Espace family car, who escapes the big city for the wide-open spaces to the music of Canned Heat's "On the Road Again."

Of course, some of this pressure to deliver has always existed inside agencies. But in a radically changing media landscape, Brunier's team has to cover relatively uncharted territory in order to satisfy Renault. The Internet looms large in the discussion, as Brunier talks enthusiastically about building an online community of potential customers ahead of a big product launch. He is especially pleased with a website that Publicis designed last year to create brand awareness for Renault's Modus hatchback among Europe's yuppie class. "There were nearly one million web page contacts," Brunier boasts.

At first glance this preoccupation with the Internet is puzzling, because it still accounts for only 2% of total advertising expenditure in Europe. Nielsen/Net Ratings says the proportion will double in the next two years, but nobody expects the Internet to overtake print or TV in the foreseeable future. The reason online advertising soaks up so much of the industry's creative juices is that clients are increasingly frustrated with television. ZenithOptimedia, another Publicis media-buying agency, estimates that TV advertising rates in Europe rose 7% last year. That doesn't make sense from the client's perspective, given TV's inability to deliver reliable mass audiences for advertising campaigns.

In Europe, as in the U.S., viewers can hop between dozens of satellite and cable channels, and if they don't like watching advertisements, they can zap them with digital video recorders. So clients want to be sure every advertising dollar helps them reach elusive customers. To that end, most multinationals are no longer willing to leave all the creating to the creatives when planning campaigns. Big advertisers such as Coca-Cola, Unilever, and Reebok, the sports-shoe manufacturer, now deploy chief marketing officers to supervise major campaigns on the principle that the company understands its brands better than any agency.

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Renault doesn't have a CMO, but it is increasingly adopting the same we-know-best approach for major campaigns. Consider the upcoming launch of Renault's new Clio X85 hatchback. The automaker has asked to be involved in the earliest stages of creative work for the prelaunch campaign, when storyboards and slogans are hashed out. "We have a lot of people who are experienced in advertising," explains Christian Barluet, Renault's global advertising director. "We're not giving them [Publicis] a brief and then waiting for a solution."

Both Barluet and Brunier cite their collaboration on the Clio campaign as an example of happy teamwork. But Renault doesn't mind making Publicis miserable when the occasion demands. Since 2000 the company's main European media-buying contract has been held by Carat, an agency owned by Britain's Aegis group, even though Publicis bid for the business. "It was a case of price," Barluet explains, "and also a case of the added value that Carat offered in terms of research."

Brunier wasn't happy with the decision. "That's Renault's decision, and of course I'm not sure it's right," he says. "I'm sure advertisers will realize that separating media strategy from brand positioning and creative development is not the right choice." That's bold talk, but there's no sign that multinational clients like Renault see any reason to put all their advertising dollars in one shop.

So have the ad industry's heavyweights been suckered into a new game, where the holding-group model suits the clients without delivering sufficient rewards to the agencies? There are plenty of smaller rivals of the big four who believe the model is unsustainable. "I think you will see the deconsolidation of our industry in the next five years," Alain de Pouzilhac, former CEO of Havas, another French advertising company, told FORTUNE earlier this year.

But Publicis's position is clearly preferable to that of Havas, its longtime rival and the world's sixth-largest advertising group, which is stranded in the industry's middle ground. In June, de Pouzilhac resigned after losing a power struggle with French corporate raider Vincent Bollore, who owns 22% of the company and is now chairman. Despite Bollore's statements that Havas can prosper as a medium-sized agency, the group is regarded as a prime target for a takeover, with Publicis a possible predator.

True, the global one-stop shop does not work as neatly as Publicis and other holding companies would like. But it works well enough to get the numbers moving in the right direction. Levy, for instance, is aiming to achieve a 17% operating margin by 2008. But he'll get to that point—close to the stellar returns of the top agencies a generation ago—only if he sheds the traditional industry belief that the client owes it a living. "One of the important tasks of our clients is to protect our margins, because we are part of what makes them competitive," says Levy. It's a persuasive sales message from another age. Unfortunately, the clients are no longer buying it. F

Fonte: Fortune, v. 152, n. 3, p. 48-52, 8 aug. 2005.