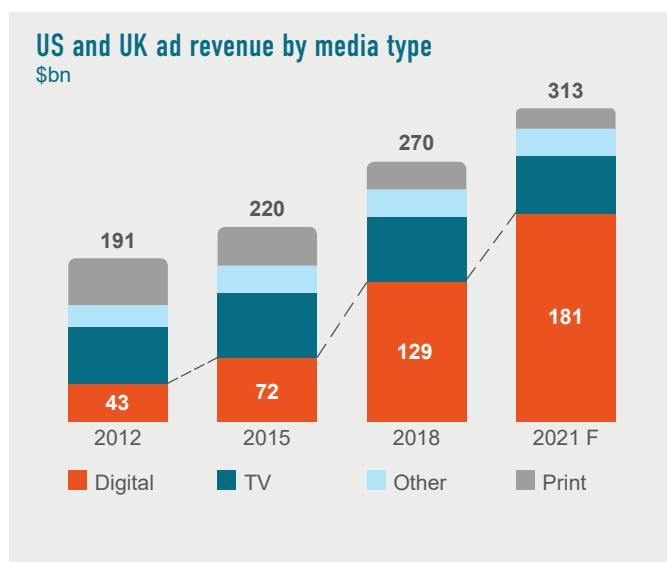


WHAT DOES THE FUTURE HOLD FOR DIGITAL MARKETING AGENCIES?

The multitude of benefits brought by digital advertising continue to drive its growth. However, marketing budgets are shifting, with spend on social taking share from spend on search. In addition, larger digital-first brands are increasingly bringing elements of digital marketing in-house. So how do agencies need to evolve to remain relevant in this dynamic market?

Drivers of digital advertising growth

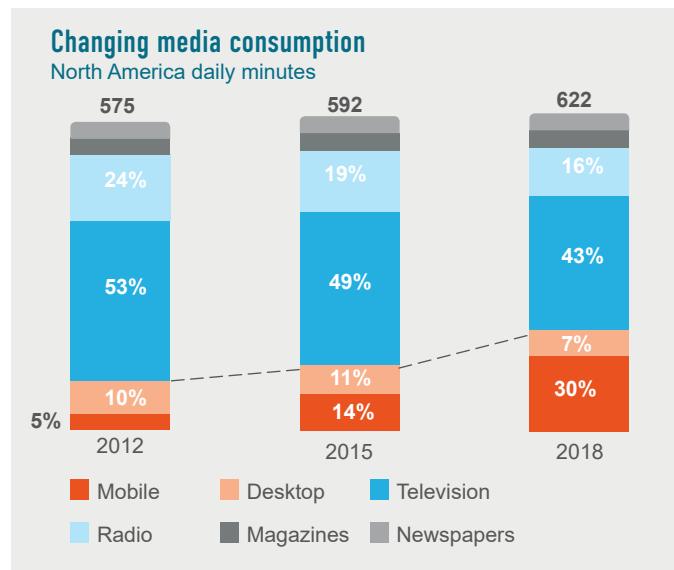
Digital advertising continues to grow rapidly, accounting for nearly half of US and UK ad spend in 2018, with share forecast to rise to 58% by 2021.



This growth has been driven in part by the growth in online consumption of entertainment and information and the shift to digital retail. Digital rose from ~15% of total media consumption in 2010 to nearly 40% in 2018. However, other attributes have also catalyzed digital advertising growth.

- Brands can **target** specific consumers with content tailored to particular preferences. This drives greater customer conversion, lowers wastage and increases efficiency.
- The ability to target small consumer cohorts creates a **low entry point** for smaller advertisers.
- Digital allows brands to micro-monitor campaigns and **measure ROI**.

- Brands can **adapt** campaigns immediately to optimize click-through-rates and respond to specific opportunities.
- Real-time** biddable auctions reduce the need for up-front investment which can only be evaluated once the capital has been spent, as in traditional advertising.
- The auction mechanism gives **clarity** around price and market rates.



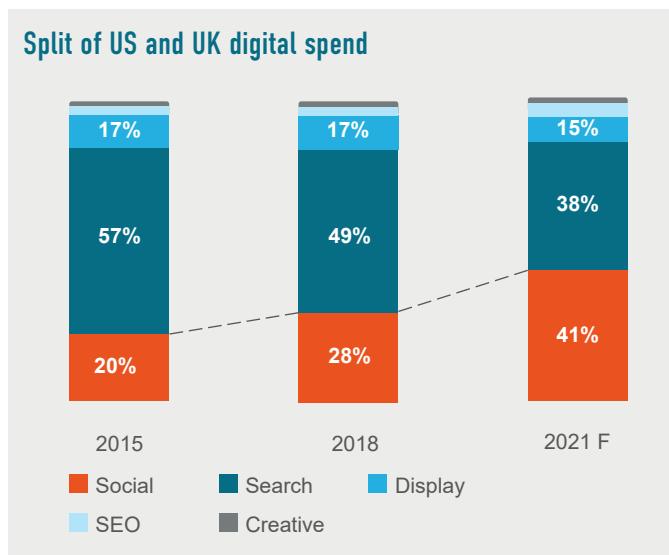
These dynamics make digital marketing more resilient than other advertising mediums during economic downturns. However, it is worth flagging that traditional channels, such as television, are increasingly investing in the technology to deliver more of these digital attributes.

Changes in digital spend

There are three primary types of digital advertising – search, social and display (which is typically sold programmatically). Agency value-add varies by type of advertising.

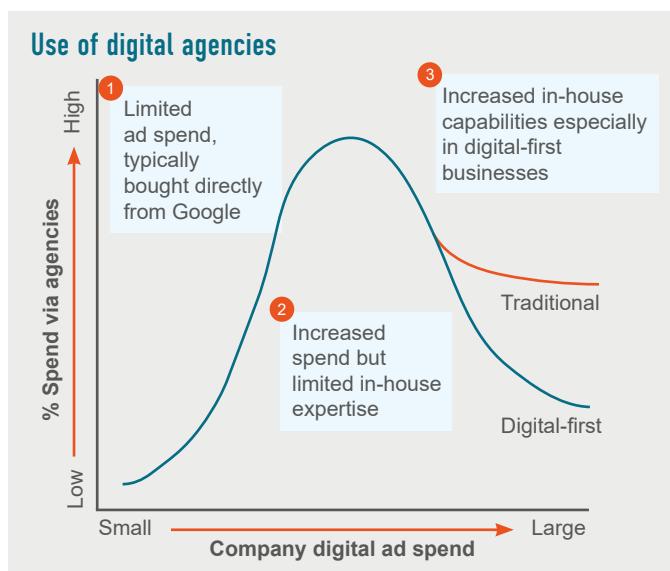
- **Search** can be segmented into organic or paid. Search engine optimization allows companies to move up page rankings organically to increase click-through rates (CTR). Agencies help with website audits, link building and key word research. Paid search allows organizations to appear at the top of a search by paying per click (PPC). Agencies help raise quality scores to increase ad-ranking and optimize pricing for their clients.
- **Social**: right-hand side or in-line social media ads can be bought on a cost-per-click (CPC) or cost-per-thousand (CPM) basis. Agencies help ensure that content, placement and micro-targeting are optimized to reach the required user impressions in budget and on time.
- **Display**: display or programmatic advertising allows real-time bidding for profiles that 'track' the user journey. Agencies help define target audience profiles and simplify ad-buying to reduce margin erosion by cutting out intermediaries.

To date, digital advertising has been dominated by search. Google alone accounted for nearly 40% of US digital ad spend in 2016. However, video is quickly changing the advertising landscape. Cisco predicts that video will account for 80% of consumer internet traffic by the end of 2019. Videos are particularly well-received on social media, engaging consumers through easily shareable, 'snackable' and highly relatable content. As a result, CIL forecasts that social's share of digital spend will overtake paid search by 2021.

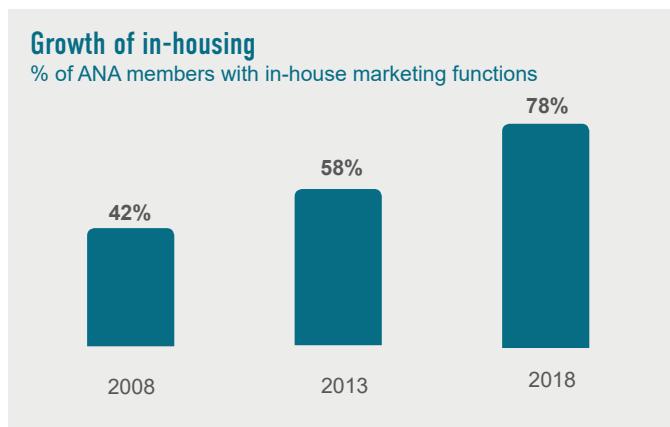


Evolving agency dynamics

How organizations use digital media agencies typically depends on the size of the business. Smaller companies tend to buy digital inventory directly, medium-sized business are most likely to rely on agencies, while larger, digital-first businesses may in-source part or all of their digital media buying.



The move by larger brands to in-house digital marketing is driven by the desire to increase control of marketing processes and customer insight data. The shift to in-housing is growing particularly in the US but increasingly in the UK and Europe.

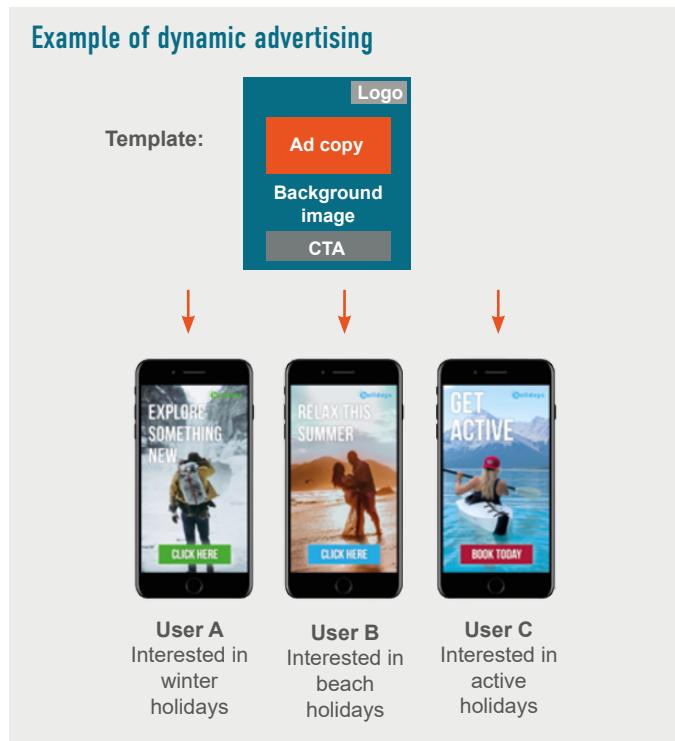


However, even large brands remain open to using agencies for specific requirements. This is leading to the emergence of hybrid in-house / agency models. In-house teams can use agency services and technology to support both planning and execution. The examples

below show how the value-add provided by digital agencies can vary:

- Optimizing search bidding is key as the top five search spots account for 73% of clicks. As platforms continuously refine their algorithms, working with a specialist agency to secure those top slots may add real value to large brands.
- Specialist agencies may be able to provide attribution insight to enhance spend effectiveness across search, social and display. They can measure the success of marketing campaigns across media and use their wider experience to compare conversion rates by different brands and platforms.
- New capabilities such as dynamic production are becoming important agency services. Dynamic production allows brands to create highly targeted programmatic display or video ads that can be adapted in real-time to address consumers with specific characteristics through geo-targeting, CRM data and consumer demographics.

One example of dynamic production is Japan Airlines' "Fly once, fly always" 2019 video campaign which leverages 3,000 unique assets to deliver a hyper-personalized consumer experience. The content depends on the viewer's language, location and persona among many other categories. While each of the videos differ in personal content to suit each audience member, the core message remains the same.



To invest or not to invest?

Despite positive underlying drivers, backing a digital agency is not without its challenges. Remaining relevant to digital-first brands increasingly requires specialist capabilities. However, defensible agency USPs can take multiple forms:

- Deep specialization in a particular area (such as algorithms, attribution or dynamic production) can add value that in-house teams may find difficult to replicate;
- Investment in process automation can reduce cost and turnaround times while increasing efficiency;
- Finally, the development of platforms and tools to support in-house teams may allow an agency to integrate its proposition with brands to increase stickiness.

These specialisms may be found in groups with broader capabilities or could form key elements of a buy and build growth strategy.



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