The Drum
Network

"What will be most critical for agency profitability in 2023?"

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Foreword

At The Drum we believe that marketing can change the world. However, we need a healthy business to make the biggest impact, don't we?

As the Head of the Drum Network, I go out of my way to help member agencies learn from each other, run better businesses, and reach prospective customers with amplified thought leadership on thedrum.com.

I often hear from our member agency leaders that they have no shortage of new business, but struggle to manage their own efficiency in the complexity of servicing multiple brands profitably.

In fact, when I was a commercial director for a luxury agency, being able to take part in Drum Network learning and networking was inspirational and practical by equal measure.

Our sponsor, Fred Krieger, knows this insight so deeply that he created Scoro, a work management platform that helps agencies harness their workflows, and scale their business more efficiently and profitably.

As we approach 2023 with the additional frames of economic unrest, decentralized workforces, and increased competition to attract and retain talent, it's critical that agencies account for these complexities, and ensure they stand on solid ground.

So, I decided to bring together Drum Network CEO Club members over a roundtable and dinner to form new relationships and discuss this important topic, in person, trans-Atlantically in London and Chicago. The result is this report. I hope it helps to guide you into 2023 and out the other side with a highly profitable, efficient business and strong industry relationships.

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head of The Drum Network

The Drum Network

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Backdrop

Agencies are renowned for their high standards of creativity and innovation but their success is ultimately based on delivering sustainable levels of profit.

The theme of profitability was the focus of the recent The Drum Network CEO Club Profitability Evening, held in partnership with Scoro, the work management software specialist.

To bring some international perspective to the debate, Scoro also supported an equivalent session in London, featuring UK agency leaders on the opportunities and challenges ahead.

The Chicago roundtable session took place at The Skyline Club, and was attended by more than a dozen senior agency leaders, each with strong views on what will drive profitability for agencies in 2023.

It was held in the context of broader challenges in the US, not least inflation of 8%, rising interest rates, and a much-reported talent shortage.

Key subjects that emerged from the discussion included delivering against emerging macrolevel expectations from clients, investing and nurturing talent, innovating structures and teams, and reinventing the business development model.

"It's not sustainable to just keep charging more for clients to pay for internal agency inefficiencies. If we charge more then it better be to increase the profits [for clients]."

Fred Krieger. CEO, Scoro

Similar topics arose during the London event, where Fred Krieger, chief executive at Scoro, identified key themes including the necessity for stronger communication, balance, and utilization. “It’s not sustainable to just keep charging more for clients to pay for internal agency inefficiencies. If we charge more then it better be to increase the profits [for clients].”

Back in Chicago, Kenneth Hein, US editor of The Drum, moderated the session and opened the debate with a vital question as clients finalize their budgets for 2023. Just what are they asking for from agencies now “that’s probably a little bit different than in the past?” What are the emerging macro trends and big picture themes; and how are agencies planning for this?

He turned first to James Meyers, chief executive of Imagination, who said that clients want more strategic advice and direction ahead of the execution stage in the relationship. This requires an approach that’s based on detailed knowledge of their operations and ambitions: “It really comes down to trying to understand what they’re doing across their enterprise. What their competition is doing. Where are their opportunities, holes in their strategy, or in their content marketing practices.”

Working both fast and slow

This thought was echoed by Allison Cirullo, chief operating officer, global brand, at Edelman, but she also saw a flipside.

Fast turnaround work has become more prevalent, said Cirullo, and there's a focus on this being "culturally relevant to the moment".

She added: "So we've seen a lot of strategy on one hand, but a lot of things that are shortening some of the execution for us, where they want to be in the conversation right now, not planning for what the next year looks like."

A point built upon by Robert Murray, chief executive officer at 3Q/Dept, who highlighted tightening timelines and pressure on budgets as a key factor behind shorter-term thinking within some client organizations. "There is a bit of nervousness that you see within clients. They're not planning long-term, they're planning short-term. And then they say they want you to drive their growth, the challenge is sometimes you're going to have to start exploring into areas you haven't before."

Speaking at the London event, agency leader Chris Jones, managing director of Space & Time, suggested that this short-termism has some negative implications for agencies, especially where it impacts talent. "There's still a lot of reactive work going on, a lot of late hours, a lot of over-compensating on pitching, and over-compensating on pricing."

There's pressure, then, on agencies to deliver at dual speed, both fast and slow, for clients in 2023 – with an impetus that seeks to root out operational inefficiencies.

Helping brands define their purpose

The need to work with brands on establishing clear purpose was also a key theme, and something that's essential in the B2B sector, according to Anthony Riley, president and chief executive officer of The MxGroup. He said: "We're seeing a major push in the B2B space to really double down on the value of the brand. What we're doing is taking what they already do, and communicating that out to the world that aligns perfectly with people."

Sustainability emerged as another potential area of focus when it comes to purpose. At the London event, Good Loop, an advertising agency and B-Corp that connects global brands with charities, was represented by Amy Williams, its chief executive and founder. Williams said that working with brands on providing affordable sustainability to consumers is an important area of future growth for agencies: "We are seeing brands lean into sustainability in affordable ways, and when the price consideration is the same, sustainability is the number one [reason] a consumer will choose a brand over another".

But how can brands bring this to life; what are the big client expectations in the experiential space? Matt Pensinger, executive vice-president and managing director at Jack Morton Worldwide, talked about the task of bringing back live events: "We're really excited to come back to in-person experiences. But one of the great outcomes of when we went virtual or hybrid was we're suddenly reaching all these people from around the world that would have never necessarily travelled to a specific destination, or they wouldn't have had the budget to do so."

Pensinger said that this has opened additional reach that brands never had before, and will place the emphasis in 2023 firmly on exploring new experiential models to capitalize on this larger audience.

"We're really excited to come back to in-person experiences."

Matt Pensinger
EVP and MD
Jack Morton Worldwide

Investing in new structures and tech

The discussion progressed to how agencies are better set for profitability based on investing in both their people and technology.

Chip LaFleur, president at LaFleur Marketing, made a point about investing in teams and training to meet future needs. His business has restructured based on client teams and transparency, "so that people on the frontlines can make more decisions."

This shift required investment, but the results improved performance: "The hierarchy has been kind of inverted for us. And so, at the agency level, we serve more as advisors. We help solve problems but we give people the tools and the data, and the information they need to be able to make decisions."

Agency leaders are also evolving their approaches. Nicole Taylor, vice-president, marketing communications director, at Arc Worldwide, said that the agency is placing a greater focus on clients than internal management tasks in 2023: "All of our senior team [are] starting to stipulate that they must spend a certain percentage of their time directly on client work. Obviously, you go up in your career, you start to be a manager and then you maybe start to get less involved in clients ... [Changing] that is one thing that's going to improve profitability next year."

Greater agility is possible due to digital transformation. Colin Lange, general manager of the Midwest at Landor & Fitch, outlined how his business has moved from eight regional studios across the Americas to one regional location. This has stimulated greater transparency and better decision-making:

“The accelerant on the business is tremendous. Because you’re answering client questions at pace, which is very different than what we were doing before.”

Chris Kimbrell, vice-president and client manager at Jellyfish, said that client demand for higher levels of transparency and efficiency requires even greater flexibility from agencies in how they structure their teams: “At Jellyfish we’re more focused on the globalization of our offerings. And breaking down the barriers to what the team might look like.... we have that flexibility of resource allocation. That allows you to make some smart choices in terms of options that you begin applying that don’t always need to increase costs.”

“All of our senior team [are] starting to stipulate that they must spend a certain percentage of their time directly on client work.”

Nicole Taylor
VP marketing and communications director
Arc Worldwide

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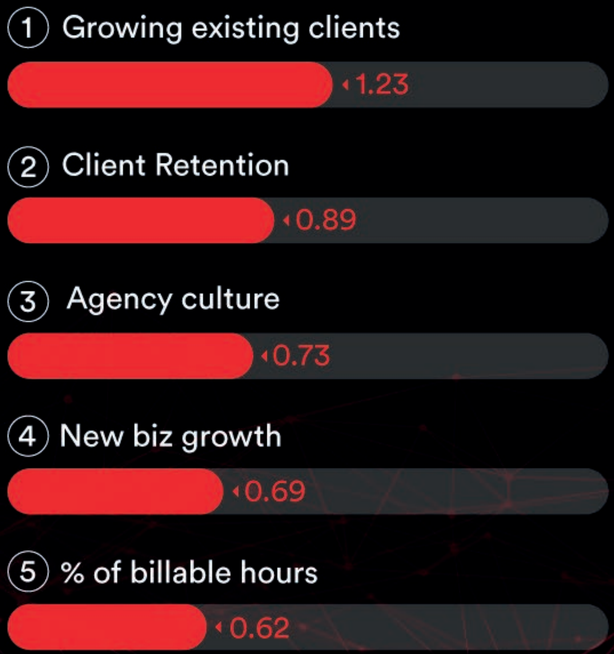
Which of these factors are most effective to increase profitability?



What key actions can agencies do to improve profitability in 2023?

More accounts Building agency IP

Look after your people Share profitability

Forecast revenue well Flex rates by hierarchy

Demonstrate ROI better Focus in high margin scope

Improve efficiency

Manage capacity New biz

Streamline ops Technology Streamline production

Streamline process Staff culture Incentivize talent

Recruit effectively Productivity Get the train to Cannes

Be valuable to clients Better pricing strategies

Are you. or have you considered using software to understand and improve profitability?

Source: 26 respondents from The Drum Network CEO Club Profitability Evening Polls in London, 28th October

Putting the focus on talent

But, asked Kenneth Hein, how do agencies take this to the next level, and even stronger growth and profitability? Elizabeth Harris, chief strategy officer at Arc Worldwide, suggested that a renewed focus on helping people will bring its own rewards: "Whether it's our own internal people in our organizations, or it's shoppers or consumers that are out there in the world, I think that we home in on what people need."

Agency talent will play a major role in this. Kelly Graves, president at FCB Chicago, spoke about the challenges of engaging with, and motivating people, within a large agency. She said that this is important regardless of whether "it's a hybrid day where they're working from home, or if it's an in-office day, they want to feel like they're a part of something and for us."

Post-pandemic behaviors have placed even greater emphasis on agency reputations when it comes to attracting talent. Tim Condon, chief executive officer at Schafer Condon Carter, said that the business has embraced remote working and communication but that building a strong connection with people remains important:

"You're dealing with a freelance mentality that could go anywhere at any time. So, your brand as an employer has to be strong enough, and attractive enough, to keep them there. It's kind of a new era."

This emphasis on the importance of attracting the best talent was echoed at the London event, where Steve Bell, co-Founder and global CEO at Iris Worldwide, made a point about the growing complexity and "multi-layered" nature of the industry and how agencies must work harder to reflect this. "For me, it's the make-up of talent [...] and how the industry attracts the best talent, because I just don't think it is at the moment. I don't think we're as attractive as we used to be as an industry".

"[Whether] it's a hybrid day where they're working from home, or if it's an in office day, they want to feel like they're a part of something and for us."

Kelly Graves
president
FCB Chicago

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The rising cost of hiring these people was raised as a challenge in London. Hannah Kimuyu, managing director of performance at Brave Bison, said: “Most of our people are based in London, and the salaries are insane right now. So, the challenge is about ‘how do I find the right talent?’ But also, ‘how do I keep it?’”

Taking better care of people is one solution here. Brian Hurley, president at Schafer Condon Carter, said that mental health is an important factor in a healthy workplace: “We just have to be decent and be kind, understand that everyone is still going through whatever they’re going through … The veil has kind of been taken away and we need to be more transparent. We need to be more human to each other.”

A view supported by Elizabeth Harris at Arc Worldwide because an agency’s “ideas come from healthy, creative brains” and supporting those that “do amazing creative work every day … should be our number one focus.”

Finding new ways to reward people is also vital, added Kelly Graves: “We’re really working to figure out how we tie our business objectives as a company to compensation at all levels. I think as a senior person you understand if this company does well, I will get a lovely bonus and if it doesn’t, I will not. But, as a junior person, how do you tie recognition and reward that doesn’t always have to be financial?”

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Growing the client relationship

The roundtable discussion concluded with views on the broader pressures on clients - rising interest rates, the need for a fast return on investment - and how agencies can best respond.

One possible route towards delivering greater value to advertisers lies in appreciating the growing importance of transparency, and in proving how marketing activity directly impacts profitability. Kevin O'Connor, head of sales, Americas, at Scoro, said "the need to deliver more value on every project with every client" together with "the overwhelming need to track my projects" is very common to many of Scoro's agency clients. He added that companies are looking to understand their profit margins in as close to real-time as possible, an area work management software underpins.

Agencies that re-imagine the business development model also have a great chance to grow profitability, argued Imagination's James Meyers. He said that a 10-point rise in gross margin at the business was partly down to efficiencies driven by technology, but also a focus on existing clients rather than a constant new business drive: "They trust us because we have a relationship with them that they count on. We can then say 'no' to the client, or we can put a premium on the services that we provide."

The changing face of clients was raised as a concern by Jeff Berg, president at Abelson Taylor. He said that higher turnover of marketers places greater responsibility on senior agency people to demonstrate the value of their services: "We're talking some basic marketing things. Not that these aren't smart people. They're just inexperienced in some cases, and they're new. So, we've got to convince them that we are providing this value."

Agencies have an excellent opportunity here if the client understands the importance of the connection, said Anthony Riley at The MxGroup. Profitable and sustainable partnerships involve the ability to "grow and adapt with their agency in order to make it a mutually beneficial relationship."

There will certainly be some client caution ahead, as belts are tightened in 2023, but Riley concluded: "Agencies are going to be looking to focus on the clients that give them the best opportunity to do great work and to make money, and you want to be one of those clients."

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Anthony Riley
president and ceo
The MxGroup

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About Scoro

Founded in 2013, Scoro is an award-winning work management software platform for agencies, consultancies and professional services firms. Thousands of teams in more than 60 countries trust Scoro to increase their margins, save them time and accelerate data-driven decision making.

Unlike traditional single-use solutions, Scoro is scalable across an entire business—from projects and sales through to billing and reporting. Scoro is head quartered in London, with additional offices in Denver, New York, Tallinn and Riga, and has been listed in Deloitte's Technology Fast 50 list and the Inc. 5000 list.

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