WHAT DO ADVERTISING AGENCIES DO?

Advertising agencies should identify what business they're in.

By Faris Yakob

Outside of the industry, it is little recognized that advertising agencies do not actually make television commercials—this is outsourced to production companies. Agencies germinate, direct and manage the processes of advertising production. However, the question is more fundamental than what do they do, but rather, what are advertising agencies *for?*

In 1975 Theodore Levitt wrote one of the classic texts of marketing. "Marketing Myopia" is the "quintessential big hit HBR piece", to quote a later article about it from the self-same Harvard Business Review. In it, Levitt points out that every industry was once a growth industry but that never seems to last, not because the market is saturated but rather because companies misinterpret the fundamental question: "What business are you in?"

One of his key examples is the American railroads—once a mighty growth industry, it declined steeply because it failed to recognize the threat presented by the emergence and eventual affordability of cars and what was once described as "100 ton tubes of metal moving smoothly through the air 20,000 feet above the earth, loaded with 100 sane and solid citizens casually drinking martinis." The railroad tycoons thought they were in the business of railroads when they were really in the business of transport—they were myopically product focused instead of being customer focused.

This idea has become an adage of marketing, aphoristically captured by Levitt himself in a later article:

"People don't want to buy a quarter-inch drill. They want a quarter-inch hole!"

It's the same logic that might have prevented Kodak from its ignominious fall from grace. Kodak wasn't in the "film" business that digital cameras abruptly decimated, it was in the business of capturing memories—it just didn't realize until [possibly] too late.

Advertising agencies "make" advertisements and this is a surprisingly healthy business considering how often its demise has been trumpeted. Indeed, television advertising in the USA grew 9.7% in 2010 according to *eMarketer*, bouncing back after the recession, and growth is projected to continue. Despite time-shifting ad-skipping digital video recorders, the death of the 30-second spot has been greatly exaggerated.

That said, it's important to remember that advertising is a drill, not a hole.

Advertising is a means, not an end, a lever designed to effect consumer behavior leading people to pay price premiums and buy more things and more often, due to the dimly understood interactions of persuasive symbols and human cognitive, social and economic behavior.

Thus, should better, more efficient, more effective solutions to the business problem of marketing products to the masses manifest, companies would be well advised to pursue them. Advertising agencies then, either make advertising, which is a service that can be displaced, or they help corporations solve business problems with creativity, which will remain an ongoing need as long as there are corporations, but puts "advertising" agencies into a much larger competitive set alongside other business consultants, albeit with a specific competitive advantage of being able to effectively house and manage commercially creative people. Large management consultancies struggle with this for the same reason

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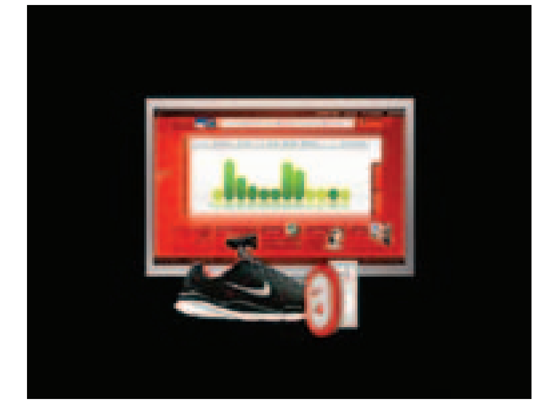

1, 2.
Client: Nike
Agency: R/GA/New York

corporations do—the environment isn't usually very palatable to them.

The business of advertising remains robust for now but the business of ideas that drive business growth is evergreen. The industry is bifurcating along these lines. It's a good idea to work out which business you want to be in and act accordingly. Pure play advertising agencies should defend and leverage their core competencies inside the extant market. Agencies that want to explore the possibilities outside this definition of the category must be willing to invest in developing new competencies to service emerging needs, increasingly at the intersection of technology and storytelling. This blurriness is perhaps best evidenced by The One Club awarding Nike+ as one of the Best of the Digital Decade despite, or because of the fact that it isn't a campaign. A technology driven product/service extension attracts and earns attention for a brand, solving a problem with something other than "advertising."

Both strategic routes are sensible to consider, depending on an honest analysis of the business and its strengths and assets, including its key and often overlooked intangible asset, the agency brand.

The danger comes from attempting to be all things to all customers—the essence of strategy is trade-offs, since finite resource requires finite offerings. Worse than not making decisions is falling symptom to the "Shirky Principle"—an idea established by Clay Shirky in his book, *Cognitive Surplus*, and elevated to the status of principle by Kevin Kelly, founding editor of *Wired*. Shirky points out that "Institutions will try to preserve the problem to which they are the solution." Rather than solving clients' problems, agencies that succumb to the principle spend their energies trying to maintain that the world of business and media hasn't changed, or attempting to stymie symptoms of the change when they encounter it.

As with any corporate strategy, the road ahead for advertising depends on knowing what business you are really in and acting accordingly.

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