

White Paper

State of the Regional Agency and Digital Expertise 2nd Annual Survey

Written by Susan Emmens and Jay Friedman

Regional advertising agencies were originally built to be paid on media commissions and, as a result, were driven by expertise in print and broadcast. With the rise of digital advertising, a new landscape of what is measurable, how to measure it, and what message to deliver has appeared, and it doesn't commonly resemble the traditional media metrics.

This creates a unique challenge for regional agencies because the need for this expertise is immediate, but the revenue might not yet be there to support it. These challenges also create a whole new set of questions: why might these agencies be hesitant to move into digital? What's preventing them from doing so?

On the other side of the scale, the largest holding companies have formed trading desks (IPG has formed VivaKi, WPP has Xaxis and MIG, and the list continues) to tap into root-level inventory sources for display, mobile, video, and social. The holding companies say this has been done to improve the expertise and efficiencies afforded to their clients. Critics say this creates a conflict of interest, shutting out others in the market and creating an environment which encourages "double dipping" on fees. Whether or not trading desks are good for clients will be decided by the market over time. Whether or not these holding company trading desks put regional agencies at a further disadvantage when pitching and retaining clients is being decided now.

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90 agencies participated in 2011 compared to 74 in 2010 which shows the growing importance of digital advertising.
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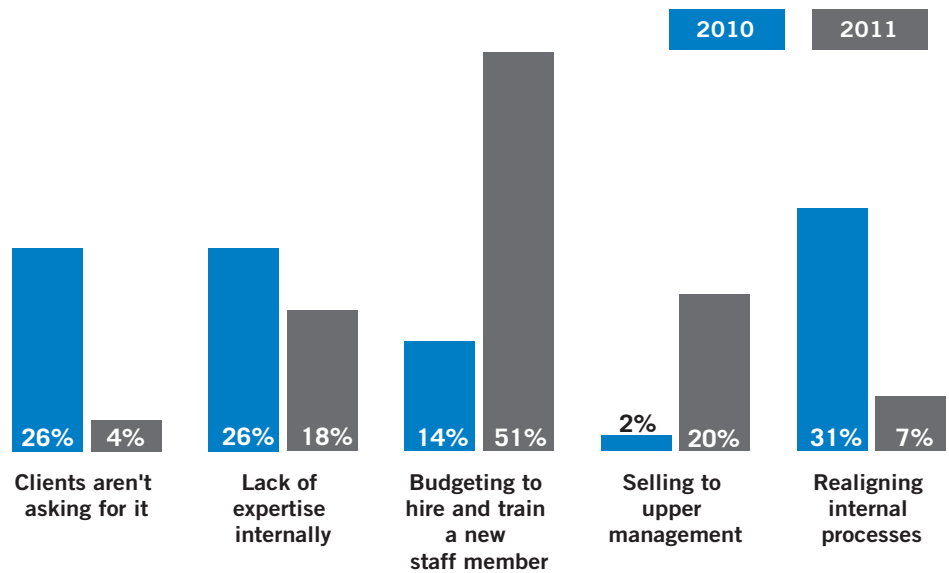
About the Study

This is our first white paper that looks at the perspective and practices of regional agencies. We do this by taking last year's first annual results and comparing them against this year's newest results. Seventy four regional agencies answered the survey in 2010, and 90 participated this year out of more than 700 which were given the opportunity to participate. Those with both the opportunity to take the survey as well as those who responded are spread throughout the United States and not clustered in any particular geography. The agencies range in size from 1 to 75 "staff members". All are members of the Second Wind association, an association which provides regional agencies with the knowledge, resources, and expertise to compete at greater levels. We also wish to extend a special note to Laurie Mikes for her incredible help in organizing and generating such great response to our survey during both years.

The Obstacles to "Going Digital"

There are two facets of interesting information here: the answers themselves, but then also how it changed from 2010 to 2011.

What is your **SINGLE** biggest obstacle to date in regard to “going digital?”



Whereas last year it appears agencies felt they could take existing employees and incorporate digital into their knowledge base, they've now realized it doesn't work well this way.

In 2010, the biggest reason was “realigning internal processes,” which is understandable. Incorporating a new medium means new ways of billing, new technology to run the media, and internal communication processes that don't exist today. The next closest reasons were a pretty close tie between “clients aren't asking for it” and “lack of expertise internally.”

Compare these results to 2011, where agencies appear to have had a significant “uh-oh” moment. By far the biggest obstacle was “budgeting to hire and train a new staff member.” Traditional processes can't simply be realigned for digital. They need to be built from the ground up. And, they need to be built by someone who knows digital. Whereas last year it appears agencies felt they could take existing employees and incorporate digital into their knowledge base, they've now realized it doesn't work well this way. This realization has led regional agencies to express their “pain” in a way that clearly states that there is a need for a hire, but the revenue to support that hire doesn't yet exist. Maybe it's because they don't have the internal expertise to generate this revenue in the first place? Quite the chicken and egg scenario.

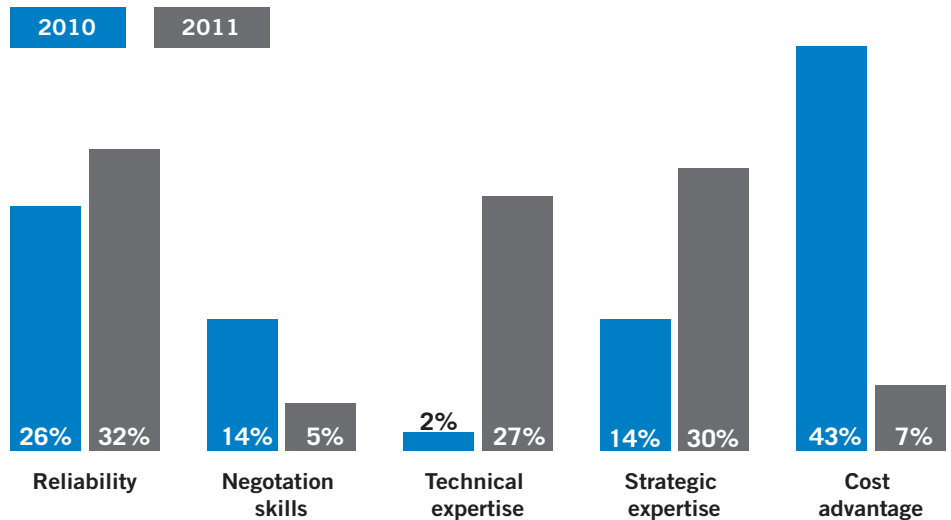
This shifts the picture of what the agency needs in order to be in this space: they need staff members that specialize in this, and they also need to convince upper management this is a worthwhile investment. Both of these indicate the investment of time and money into a medium that wasn't around when the agency's current success was established, which begs the question of whether it's a worthwhile investment.

Outsourcing the Expertise

The most obvious viable avenue for agencies in this situation is to leverage the knowledge of a partner that can fill those gaps in knowledge without being a full-time employee, or someone they need to train. This “instant on” and “instant off” relationship is being used by hundreds of agencies around the country who like the ability to control costs and still get best-in-class expertise. This opens up a new set of challenges, not just for the agency looking but for the to-be digital partners in understanding the needs of traditional agencies.

In the 2010/2011 survey this question was asked of the regional agency group, and again, we see a shift in needs between the two years:

If you were looking for a digital partner, what is the SINGLE most important quality you would look for?



“Cost advantage” was the single most important thing the small agencies valued.

In 2011, we see a major shift: “cost advantage” practically disappears, but “reliability,” “strategic expertise” and “technical expertise” shoot up.

In 2010, “cost advantage” was the single most important thing the small agencies valued. This makes sense because agency fees have traditionally been based on hourly rates or a percent of media, both of which are easily “hammered” on by the client to achieve a lower cost. Additionally, it appears regional agencies needed a partner who could fill the knowledge gap at a reasonable price tag, because digital was an add-on service and a new medium and not the core money-maker. “Reliability” came in second, which is no surprise, given that the inherent role of an agency, whether traditional or digital, is service.

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Instead of just filling a gap and checking off the box that “we ran some digital,” the regional agency is looking for a true partner who knows this medium more in-depth because regional agencies have now realized a number of things:

- Because more than 80% of digital media is done in an auction setting, price is highly variable and too many “tricks” can be implemented to lower price. Cost advantage is therefore irrelevant because of the direct parallel between quality and cost.
- Digital is not only different from what they’re used to but technically complicated. Understanding DSPs, SSPs, RTB, and managing eCPMs is a world apart from where agencies traditionally come from. Having a partner with that expertise closes a multi-year learning gap.
- They’ve been burned by unreliable partners, and there is a need for partners who truly deliver.

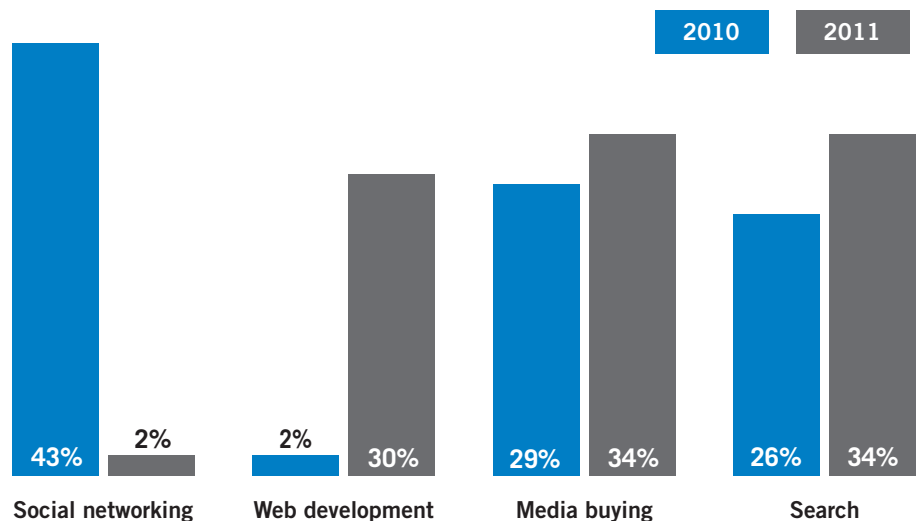
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What Are Those Specialties?

To understand the importance of true technical and strategic expertise, it brings the next natural question: where are they? There are so many areas of digital media, so understanding client needs and partnering with a group that can meet those specific needs becomes important.

If you could magically have JUST ONE area of digital expertise internally, what would it be?

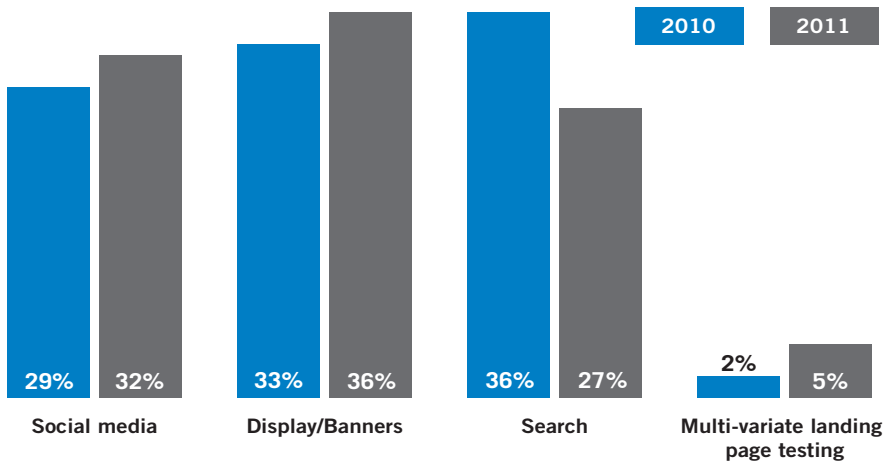


Why did social networking take such a dramatic tumble? Because in 2010 clients were in panic mode: “We must figure out Twitter and Facebook!” What happens when clients panic? Their agencies usually panic too. Now that agencies and clients have realized that you don’t need 12 fingers to have a normal conversation with customers on Facebook and Twitter, that perceived need has declined significantly, and the urgency is now pointed much more at mastering the basics. Media buying and search had reliable growth as those areas have become of more interest to businesses that are hiring agencies for those reasons. Web dev had a particularly high increase, most likely because, as important as great digital media execution is, the user generally ends up on a website that also needs to be built and engineered around the marketing and media being implemented. Good job, agencies!

When asked what they’d actually include on a new digital plan to clients, they said:

The success of a search campaign is heavily driven by efforts in traditional media and digital display, and if handled separately, will lose efficiency.

If you were to “start from scratch” and propose a new digital campaign for one of your clients today, which of the following would be the first thing to be included in the plan?

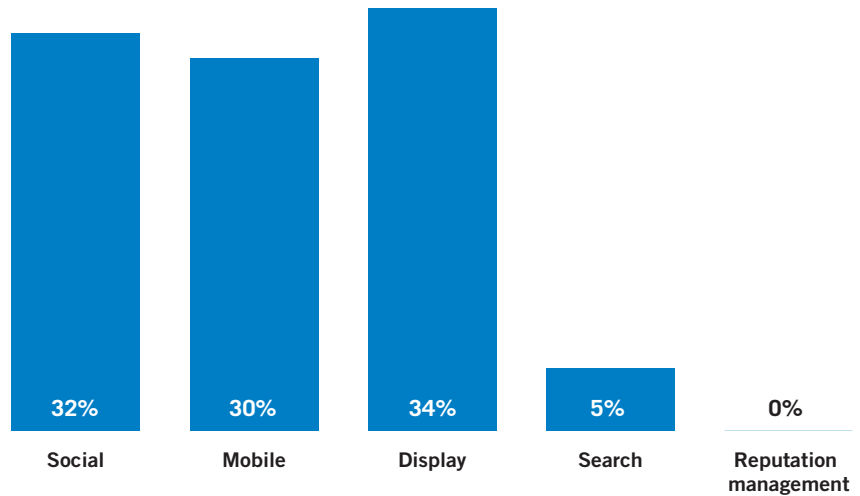


Social and display had the biggest gains. Clients seem to drive these answers because when agencies were asked what clients were requesting — they match up fairly well.

Looking at this new question in 2011, it’s definitely surprising that clients aren’t asking for search at least as much as other media. Perhaps this is because a separate agency usually handles this, or it is currently being done in-house. If the latter is the case, you’re highly encouraged to take a serious look at assuming a role in that business going forward. The success of a search campaign is heavily driven by efforts in traditional media and digital display, and if handled separately, will lose efficiency.

Note:
This question was not part of the 2010 survey

What is the most frequently requested digital medium from your clients?

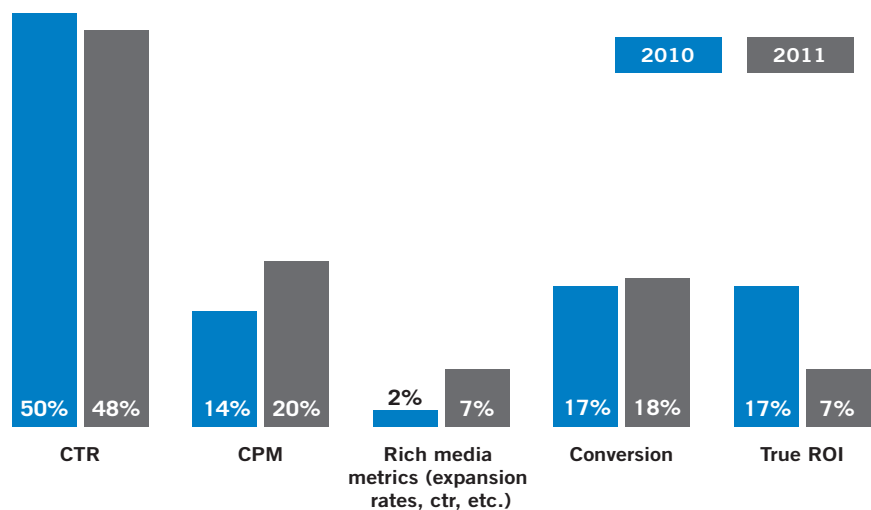


What Does Success Look Like?

There are several metrics commonly used to measure user engagement and ultimately conversion in online advertising: click-through rate of an ad (CTR), cost per thousand impressions (CPM), rich media rates such as percent of users who expanded the ad, conversion rate, and True ROI (how much the client spent as compared to actual sales).

Based on these numerically-based metrics, here's how they were ranked over the past two years by the regional agencies:

If you are running digital campaigns, how do you currently measure success?



There were less dramatic jumps here than shown in previous graphs; however, there are some notable take-aways.

CTR was once considered the best metric for success, but over time, ads have grown in their functional ability to provide a lot of information without the user needing to click away from the page/site they're viewing. This explains the correlating increase in rich media metrics as the CTR focus decreased. There was also an uptick in CPM rates (likely due to the economy and the drive to stretch budgets further), as well as in conversion rates. True ROI actually went down, which could indicate better client understanding that ads today don't always mean a sale tomorrow. There is also a heightened awareness of reaching consumers early in the buying phase and understanding it means more sales later.

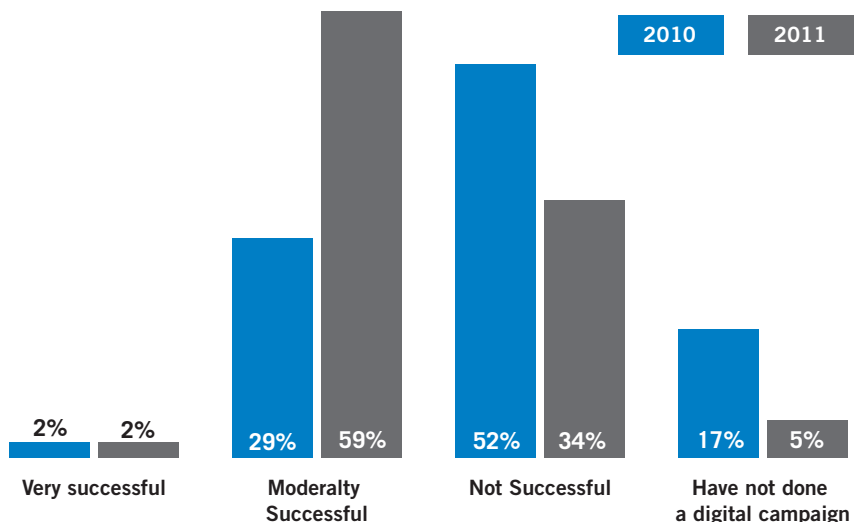
With all of this said, for any client or agency that believes CTR is still an important metric, there is a high probability they will believe the campaign failed. Using our current ability to analyze the user demographic and behavioral attributes of clickers versus purchasers, we've found there is not only no correlation, but high click-rate audiences usually convert at below campaign average. For example, in a campaign for a major import automotive manufacturer, we found those users who had previously searched for cat products (kitty litter and the like) clicked at 4.6x the standard campaign CTR, but converted 22% worse than average. If you're asking your digital partners and vendors to focus on CTR as the measure of success, you're essentially asking to target the "cat searcher" audience of your campaign instead of those who are actually likely to buy your product.

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Did You Win with Your Digital?

As the digital knowledge deepens and we see the focus of success shift between metrics, the next question is whether these agencies felt those success metrics were met in the digital campaigns they ran.

How successful would you rate your past digital campaigns?



These results suggest a few different dynamics at play. First, the “moderately successful” group in 2011 received some of the “not successful” group from 2010. This denotes a growth in understanding, not just from the regional agency side, but likely because any digital partners they used learned more about the needs of their client group as well as how to explain/position the campaigns they received for success. Second, the “very successful” stayed about the same, which speaks to consistent understanding and partnership among a smaller group. Not surprisingly, the “have not done a digital campaign” group shrunk as more clients devoted dollars to online endeavors.

Of course, if CTR is still the metric for success, it’s easy to see why “very successful” is still a small group. Even if a digital partner generated double the CTR you requested, wouldn’t you still wonder if those clicks actually did any good for the client? If so, you should be looking for deeper metrics, which are widely available and easily obtainable from expert digital partners.

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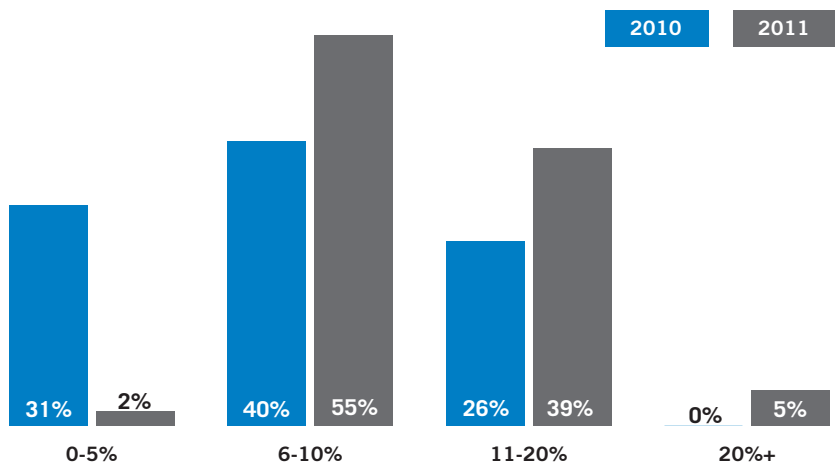
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How Spend Correlates with Comfort

Despite the shifting needs of regional agencies over this two-year period, the steady growth in the rate of successful campaigns has given a burgeoning comfort level to those who have started working within digital, or with partners they trust. Given that it’s less of a mystery, how do regional agencies feel about budgeting for digital media?

For 2010, what percentage of your clients’ budgets do you plan to allocate to digital media (search, display/banners, social, etc.)



This graph probably best encapsulates the migration and growing comfort levels regional traditional agencies are starting to feel in a digital environment.

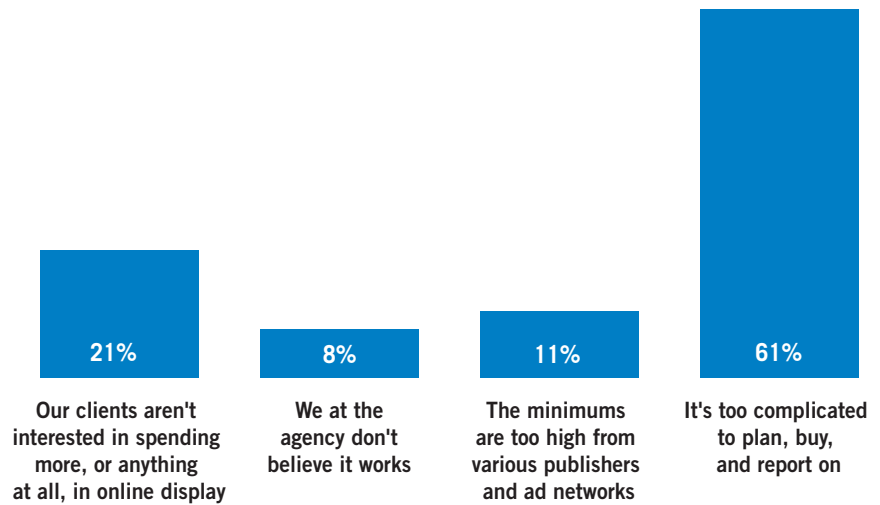
Of course, demands from clients might apply here too! The percent of budget planned for digital shifted dramatically away from the smaller percentages, and into the higher amounts. Amazingly, 20+%, which wasn't even on the map for 2010, emerged in 2011, creating a whole new budget category.

Given the highly trackable nature of the online ad dollar, why aren't these budgets higher? This was asked for the first time in 2011 as budgets shifted, but not as dramatically as some had speculated:

Note:

This question was not part of the 2010 survey

Our biggest reason we don't spend more in online display is:



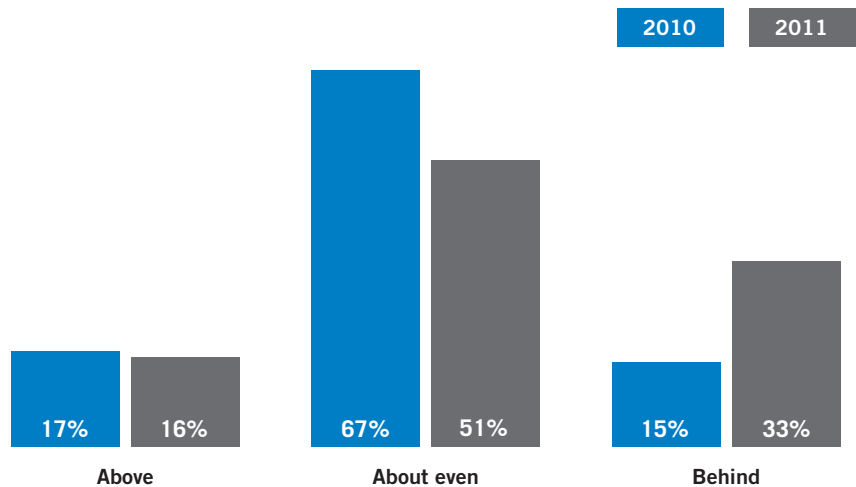
By far, the largest barrier of entry is the level of detail and complexity that goes into these digital buys.

By far, the largest barrier of entry is the level of detail and complexity that goes into these digital buys. They are time-consuming, particularly for a group that doesn't specialize in them. Plus, putting a traditional media planner into this role isn't a solution for success because they are not experts either. This increases the focus on the need for that internal hire or specialty partner that can provide this service and make the agency well-rounded in their media offerings but won't hit the bottom line profits too hard.

From Novice to Competitor

In the growth from "no digital" to readily offering it, regional agencies are learning about how their competitors are incorporating digital media as well as where they perceive their advantages lie. When asked how they felt overall compared to the agencies they are competing with:

How do your digital offerings compare with your competitors?

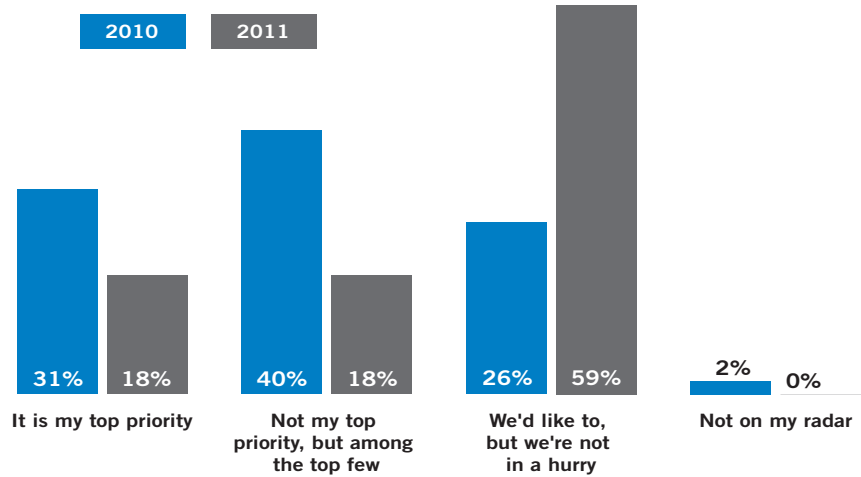


More agencies today believe their offerings are behind their competitors, compared to one year ago

It's interesting to look at the big picture these results play into: more regional agencies are using digital, allocating more digital budget, and seeing success as we saw in the previous graphs. While this is positive, they still are challenged as their services are falling behind. Note the fall in the "about even" group, which was picked up by the "behind" group. This would appear to be a direct correlation with the sentiment that digital is difficult to plan for, buy, and report on successfully. Agencies assume their competitors must have figured this out, and they are the ones lagging. The good news is that it appears you're not alone. The bad news is that your clients need it now, and not on your timeline. Digital media changes and evolves at an incredible rate, and if a traditional agency already feels buried in trying to understand basic mechanisms of buying and reporting, it is not going to feel ready to tackle the rest. In our experience working with regional agencies across the country, an agency that is indeed behind will never catch up without making a significant/expert hire or dedicating themselves to work with an outside partner until they can acquire that knowledge from the partner. The days of "we'll figure this out" are indeed gone.

Despite the increased confidence in several areas we have reviewed, this feeling that their services may not be quite up to those they're competing with also reflects in their priority level for increasing their digital offerings:

In terms of agency business priorities, where would you say “going digital” falls?



Agencies have lowered “going digital” as a priority after realizing the skill sets needed to succeed. But is this right path for success?”

Interestingly, there’s a big increase in “we’d like to, but we’re not in a hurry.” When you take this in context of the last few graphs detailing how these agencies feel in regard to their competitiveness and where the barriers are, it’s not surprising to see hesitancy. Digital is perceived to be a big investment internally — both in time and money — and outsourcing means putting crucial client relationships in the hands of a third party. It’s obvious that digital media is on the radar, and there’s not a lack of belief in its effectiveness; it’s just a completely different specialty, and to become an expert means taking both feet off first base in order to steal second. The upshot is that there is increasing satisfaction with the success of the digital campaigns that are run, particularly as traditional agencies view digital partnerships as complementary and not competitive.

Given this, it also shows that the skill set tied to digital media doesn’t fit into what the agencies feel their core offering is. When asked what they feel their biggest offering is, not surprisingly, the technical arena scored low — and that’s where agencies previously noted they feel overwhelmed with digital.

The 30,000 Foot View

All of this data paints a compelling picture of the position the regional agencies find themselves:

- **Digital media works** — The success rate is climbing, and budget allocations are shifting accordingly in response. The more agencies understand digital, the more they understand how it can be a successful part of their media mix.
- **The barriers to achieving digital expertise appear to be psychological more than anything else** — Disappointment in past digital campaigns and the perceived need to hire one or multiple people

internally to support a small percentage of revenue can easily be depressing to an agency owner.

However, the agencies who have partnered up to instantly achieve this expertise and then learn internally from the partnership are not experiencing these same difficulties and frustration.

- **Be the full-service, fully knowledgeable media expert your clients want you to be** — Regional agencies fell behind in their ability to be competitive in the digital landscape, so they resist focusing too heavily on it. The low scores for technical expertise reflect a need to gain this expertise quickly and have it on-demand without it being a significant hit to the bottom line.

There is pressure for agencies to be full service — clients generally don't want to deal with different companies for different media and wind up spending time and money on a marketing plan that isn't cohesive. The largest agencies are no longer line-iteming digital media as something new and different. Mobile, video, and more "traditional" digital media are included just as TV or print would be. The spending figures support this: eMarketer points to digital media growing from 11.9% of all media spend in 2009 to an estimated 17.2% in 2014. In a separate study, by AudienceScience and DM2Pro, eMarketer reported that clients are increasing their digital spend specifically because it is generating better results than other media (60.2%, the top answer).

Regional agencies now need to accelerate the value they've always provided in traditional media to being full service across all media in 2012 and beyond. Our experience in the market has shown there are only two ways to do this: invest in new hires or work with an outside partner. The route you go depends on your agency's culture, but taking your first step on either of these paths now will make your agency more competitive, sought after, and profitable.

Additional Resources

One of the fastest ways you can improve your digital media knowledge is to immerse yourself in the information and trends in the digital media marketplace. Reading newsletters, blogs, and websites like adexchanger.com, clickz.com, mediapost.com (the digital side), imediaconnection.com, and techcrunch.com offers you a way to be exposed to varying perspectives within the market. Additionally, we recommend you attend conferences, such as ad:tech, OMMA, or IAB. Most often these conferences offer a complimentary exhibit hall pass just to walk the floor. This gives you centralized access to dozens of vendors from which you can gain insights and perspective. You'll know you've become an expert when you feel your conversations with these vendors are teaching them more than they're teaching you!

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About Goodway Group

Goodway Group is the digital media partner to more than two dozen Second Wind agencies and nearly a hundred others throughout the country. Goodway's (many millions of dollars of) digital media and technology investments are available to regional agencies in an "instant on" format with no retainer or cost for services. Because Goodway is integrated at the ground floor of all major digital media inventory and user data sources, Goodway offers paid media at rates competitive or less than conventional digital media sources and takes an active advisory and analytical role in every campaign as added value.

Goodway Group was founded in 1929 but transitioned its entire business to focus on digital media from 2006 to 2009. Goodway is now recognized as a digital media leader and expert around the country. Jay Friedman, COO, and Dave Wolk, CEO, wrote 30 Days to Digital Media Expertise and 32 Days to Going Digital, both highly praised books, the former now in its fourth edition. Both men are also sought-after speakers and routinely present at conferences and association meetings throughout the U.S.

To learn more about Goodway, please contact your regional representative to schedule a no-cost, zero-obligation consultation and receive a complimentary copy of 30 Days to Digital Media Expertise.



BUY THE BOOK

Available at these online retailers:

www.30daystodigital.com



www.goodwaygroup.com

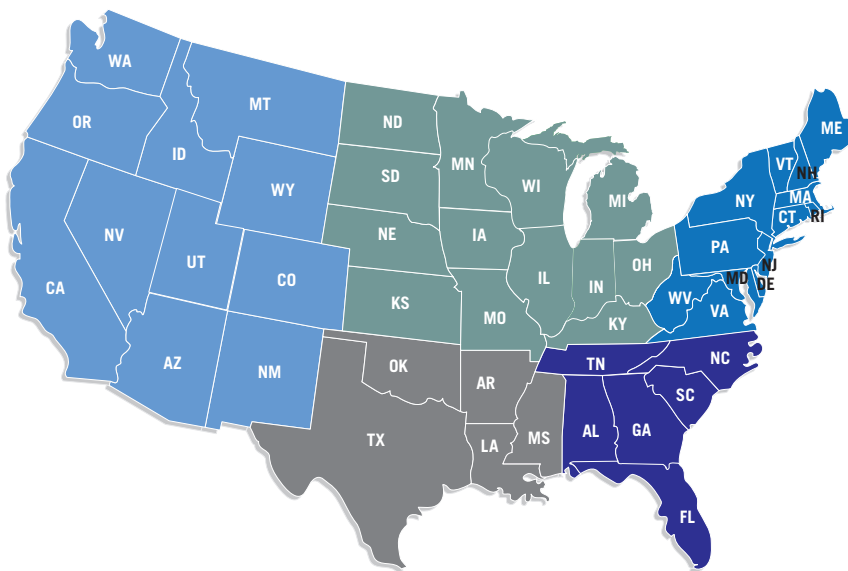


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