<u>The Death of Advertising</u>

An address given by
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I wish I had a more up-beat message to give to those of you who are graduating and looking for careers in or related to advertising, but I'm here instead to report to you on **The <u>Death</u> of Advertising** … or the death of advertising and advertising agencies as **<u>I</u>** have known them, at any rate, for more than 30 years.

First let me say that every one of you is better trained and much better informed than practically anyone of my generation was 30 years ago. You're more mature, more sophisticated, and probably more impatiently aggressive than we were, but your chances of beginning your work careers in traditional advertising jobs are very slim indeed. So you're going to have to be imaginative, creative, bold, daring, opportunistic and prepared with strategies to outsmart the headhunters and the personnel departments. I promise that I'll offer you some concrete suggestions before I finish, but for now let me tell you how and why I have come to find things as they are.

Not quite 12 years ago an event occurred on mainstream Madison Avenue, which rocked the advertising industry like a nuclear explosion, an event from which the industry has not yet recovered. And even though it didn't seep into the consciousness of all of the tens of thousands of people employed in advertising until several years later, its impact altered forever the relationships of advertising agencies with their clients, and all of the ways in which the business of advertising had been done.

<u>TWA</u> was billing about $60 Million with <u>Ogilvy & Mather</u>, then and now one of the top ten agencies in the world, and among the most highly respected. All of the major airlines were then experiencing the bad effects of see-saw de-regulation & re-regulation, special discount fares and price wars, and higher and higher costs of operations. ***Yes,*** many more people were flying more often to many more destinations; there certainly was more business for the airlines. But there were great competitive forces, and profits were down drastically. TWA recognized the need to advertise <u>more</u>, but they could not afford to increase their <u>expenditures</u>

for advertising. So they confronted Ogilvy with a revolutionary proposal…a ***demand,*** actually. They would pay for more advertising, but they insisted on reducing the rate of commission they paid to their agency.

Now the sole source of revenue for large agencies had always been the 15% commission they charged on media, going back about 100 years, certainly at least since the advent of network radio advertising in the 1930's. Agencies also charged 17.65% on top of their direct out-of-pocket expenses for clients (an amount which *yields* a 15% profit). These numbers were truly sacred, inviolate: the universal basic standard of compensation.

Accordingly, Ogilvy initially refused to consider lowering their commission rate. But saying goodbye to a $60 Million piece of business---a client for whom they had always done good work---was not an easy thing to do. So they soon agreed to participate in a competitive presentation to retain the TWA business. And they *did*, having pitched a new commission rate of---I believe---12.75%.

Overnight the tenor and complexion of new business presentations changed. Whereas before the subject of compensation had never even been *discussed* in pitching new business, it quickly became perhaps the single-most important element---other factors being equal---in an advertiser's decision of which agency to select for their account. (The average rate of commission has steadily, bit-by-bit, descended to something in the neighborhood of 11% today.)

Now for a large agency, showing a healthy net profit after taxes of only 1.5-2% while billing at 15%, a drop in the commission rate of only a few per cent could be catastrophic. At the very least, the agencies had to cut their overhead to survive, to have any hope of prospering. And the only area they *could* cut was personnel. Someone once said that an agency's assets go up & down the elevator every day. Beginning a bit more than ten years ago, fewer and fewer people were making that trip back up in the elevators. This was also the era of consolidation, downsizing and mega-mergers, all of which created what is euphemistically called redundancies", as a continuing consequence of which the numbers of people working in advertising agencies have steadily declined over the last 12-15 years, even in a boom economy. Many fewer people do much more work. Most of the fat was trimmed away long ago, but the cuts in personnel continue as agencies and their clients seek more efficient ways of doing their business. **This is a trend which will not be reversed, I assure you.**

One of the reasons for the continuing decline in the numbers of people employed at the agencies is the newer technologies, a subject to which I will return later. But do bear in mind that with sophisticated new technology---in advertising as in other industries---using new technology eventually results in fewer people being required to do the work.

Furthermore, new technology demands outlays of huge capital expenditures by those companies installing new equipment and---in the same predictable vicious cycle---the outlay of large amounts of capital can only be offset by further reductions in payroll, because there is no other way for those companies to find the money to pay for the new technology. So more jobs are lost.

Let me back up a bit to clarify some of the basic rudiments of advertising, things with which I expect you're already familiar:

Advertising companies are called "agencies" because they are the agents for their clients in selecting and placing media. The cost of media---for large advertisers---represents roughly 85% of the total dollars in an advertising budget. Production and other items are paid for with the relatively small remainder of the overall budget.

Agencies perform a variety of services for their clients, but the three biggest pillars or disciplines of agency work, that which involves the majority of an agency's personnel, are:

- Marketing and account services;
- Creative (which includes Production); and
- Media.

The other jobs in agencies are in research and strategic planning, sales promotion, and the infrastructural areas of finance and administration, but the jobs I imagine most of you care about are in those big three categories: marketing, creative and media.

Another defining set of facts, an oversimplification perhaps, but a clarifying principle we must not lose sight of is that there are only three purposes of, three reasons for advertising, three elements all advertising has in common:

- <u>To convey information</u> (the “message”);
- To persuade (the “sell”); and
- <u>To entertain</u> (and by “entertainment” I mean any and all of those devices which ***call attention to*** the advertising: music, humor, graphics, a celebrity presenter, etc.)

It is estimated that---depending upon where you live, the time of year, and other variables---the average American is inundated by between 500 and 4,000 separate advertising messages or impressions every single day! This is what our community calls “clutter”. The job of advertising, the success of ***good*** advertising is to <u>**penetrate**</u> the clutter, to make consumers see & hear & remember & be persuaded by & feel good about a product or service offered by an advertiser . . . and the objective of almost all advertising is eventually to <u>sell</u> more of those products or services.

The evermore complex “science” of advertising is in finding the most cost-effective and accurate ways to communicate impactfully to an advertiser’s particular <u>target market</u>. To do this (and keep in mind those three principal pillars of agency personnel) … to do this *successfully* requires clear, concise, realistic, realizable marketing objectives and strategies; superior, stand-out, memorably relevant creative work; and employing the devices and techniques which best insure that the people for whom the advertising is intended will be favorably confronted with those messages. This last aim is most likely to be achieved principally through what proves to be the best <u>media</u> selection and placement and frequency.

Advertisers don’t want to pay their good money to reach segments of the market who have no need for nor interest in their products or services. This is one of the reasons why <u>network tv</u> (a medium reaching vast and diverse audiences) is increasingly looked upon as the ***least*** effective means of advertising. It is certainly the most <u>expensive</u>.

More and more advertising decisions are motivated by the advertiser's single-most important consideration: protecting and enhancing the bottom line, the advertiser's own net profits. And increasingly during the last 15 years this objective has been harder and harder to achieve. Costs continue to rise dramatically, there is always more competition and the competition is more aggressive than ever, attention is harder to command, audiences are easily distracted, and they are more splintered, especially within the so-called mass media.

…which brings me back to the new technologies, and the use of those technologies to achieve the advertisers' primary objectives.

As recently as ten years ago, many of the leading, largest advertising agencies derided cable as an un-smart media buy: cable didn't have proven measurable audiences, it didn't have established rate cards. But the advertisers themselves forced their agencies to investigate and employ cable as a relatively attractive, cost-efficient medium, urging their agencies to use their instincts to identify demographic targets, even in the absence of reliably conclusive audience data. The advertisers were right to pressure their agencies, and advertising on cable has now grown to become a significant part of the media mix.

As recently as *five* years ago, many of the leading, largest agencies derided internet communications, including those with interactive capacities, as a statistically insignificant medium …not even a medium, some claimed …not nearly enough consumers on-line, and no way to measure if they're watching. But the advertisers again correctly forecast the future. Their agencies had for too long been in bed with network tv, the large syndicators and the other mass media. The advertisers saw the World Wide Web as a means of speaking with their target audience economically and directly, even if the exact methodologies had not yet been worked out, much less fine-tuned. Many of the largest advertisers became impatient with their agencies, and as a consequence we have begun to witness a phenomenon in the advertiser/agency relationship, in which many of the largest advertisers have mastered the new technologies more thoroughly and on a faster learning curve than their agencies. The agencies---especially the so-called "creative" shops---were thought to be more hip, more liberally open-minded, more likely to be multi-disciplinary, more inclined to try what's new than their play-itsafe clients were eager to seize upon the new technologies and to persuade their clients to use these new tools productively, to give their clients a truly competitive edge, and---by so doing---make their <u>own</u> services more attractive to prospective ***new*** clients. But instead it has been the more conservative, more set-in-their-ways <u>clients</u> who have taken the lead, leaving some of their agencies potentially behind.

When I speak of “the death of advertising”, it is in *this* arena, the <u>direct-to-consumer marketing</u> of the new millennium, that agencies have the most to worry about. Placing advertising on the Web doesn’t afford agencies the lucrative media commissions which had been the basis of their compensation. Furthermore, agencies were invested in the belief that their clients would be fearful of abandoning what had worked for them in the past, reluctant to experiment with anything cutting-edge but their clients, always with an eye on the bottom line, have begun to turn the tables, and the grimmest scenario is one in which the traditional advertising agency becomes unnecessary, even obsolete that is, once advertisers can talk <u>directly</u> to their consumers and do some---and eventually ***all---of*** the planning and creative work <u>in-house</u>, work which they used to pay agencies to do for them.

While this hasn’t happened yet, and most agencies are now struggling---some more successfully than others---to keep up, the trends are clear: unless advertising agencies re-think their roles and re-invent themselves, their business and their revenues will continue to erode. And with this erosion comes---you *guessed right---the* loss of still more jobs.

Professor Lewis has told me that at this moment your focus is primarily in learning what you could and should be doing to find employment in advertising, or in the *production* of advertising, or within the supplier industries that <u>support</u> the production of advertising. As I’ve indicated, the number of jobs, in all disciplines (except, perhaps, <u>media</u>), will continue to shrink, even as the available pool of young, eager, well-educated, fiercely-motivated, highly-trained candidates increases. Do the supply & demand math: ***it’s not good.*** While there will always be some turnover and will always therefore be some job opportunities in advertising agencies, the ratio is unfavorable for you if you’ve got your sights set on Madison Avenue: ---far too few jobs for far too <u>many</u> qualified people.

When I came into this industry a little more than 30 years ago, my background was indeed bi-disciplinary: I had worked in sales and in theatre. But I knew literally nothing about advertising or broadcast production. No matter in 1968: neither the knowledge nor relevant work experience were requirements then. Except for two or three small technical institutions, there were no schools or even majors offered at colleges and universities which prepared students for anything related to film and video production or post-production. The staffs of advertising agencies were regularly replenished by MBA's on the account side, and straight-ahead serious writers and artists on the creative side. The "creatives" all learned their advertising crafts on-the-job, and almost anyone who wanted to be a producer could. And media then was still pretty much a fledgling work-in-progress, a fly-by-the-seat-of-your-pants, make-up-the-rules-as-you-went-along, steadily evolving learning experience ... to the point *now* where media folks will tell you that media is not merely a science, but an ***art,*** too. (<u>I'm</u> not so sure, but they believe it.)

The replenishment data is radically different today from what it was 30 years ago, even though the MBA mills continue to turn out successive generations of account executives. In all the <u>other</u> disciplines, everyone ---including, presumably, all of ***you***---*have* to have the requisite education, training and real-life experience to meet the much stricter criteria for entry-level jobs in advertising.

Also, 30 years ago, the industry was growing, expanding almost exponentially. The early 70's saw the proliferation of tv sets grow to nearly three per average household, and a commensurate increase in round-the-clock programming, leading to an even greater increase in the number of hours people (especially the very old and the very young) spent in front of their tv's. With all that new programming and new channels came more and more <u>advertising</u>. Color tv was not widely available until the early 70's, and cable programming came about only in the <u>late</u> 70's. <u>MTV</u>, which profoundly changed the language and especially the ***pace*** of video communications, first appeared in 1980, less than 20 years ago. And <u>CNN</u>, which was introduced even *later* than MTV, redefined broadcast journalism, not only by reporting the news <u>as it was occurring</u> (as in their Persian Gulf coverage), but even *making* the news themselves. (Historical sticklers---and I am one, myself---will point out that Edward R. Murrow was doing that in London in World War II, but he didn't have cameras on the landing boats, uplinked to satellites. In fact, the only satellite we had in the mid-1940’s was the moon, itself!)

Technological developments and advances have changed how we work in production and especially post-production in truly revolutionary ways ...not once, but several times since I started out. Then it was all 16 and 35mm film. Occasionally we did some post-production on videotape, but it was very slow and very expensive, on noisy, clunky 2-inch machines, more than four times the size of today’s equipment. The standard editing equipment then was a clattering, temperamental 35mm device called the **<u>Moviola</u>** (after the name of the company which introduced it). The model universally in use until as recently as ten years ago was first used in the early 1930’s, and it never underwent any significant technical changes ... most of the Moviolas in use in the 80’s were manufactured no later than the early 1950’s. Interestingly, some are still being used in Hollywood, out of sentimental nostalgia more than any other reason.

But in a period of less than ten years we saw the quickening evolution of post-production equipment change three or four times, each time making all antecedent hardware instantly obsolete, junk that editors had to pay to have removed from their premises ...and dozens of post-production companies were forced to shut their doors, bankrupt from trying to keep up with the rapidly-changing technological demands.

Now we are all <u>digital</u>, and it is possible (not *likely*, but possible) that some form of digital videotape format will replace film altogether in less than five years. Die-hard traditionalists who wax eloquent over the ineffable properties of film grain will fight hard to resist it, but once again the major advertisers---especially Procter & Gamble---will lead the charge because of the irrefutable <u>economies</u> of, say, <u>digibeta</u> over film ... and they have the absolute clout to force change ... and perhaps they will.

The **<u>AVID</u>** was introduced about ten years ago. It was a “turn-key” box which used Macintosh hardware. *The computer had invaded the editing suite!* The AVID software has been upgraded practically every month since its introduction, but even though it is the editing equipment of choice, popular, extremely user-friendly and fairly easy to master, a ***newer*** system appeared less than two years ago, “**<u>Soft Image”,</u>** which had the potential to replace off-line ***and*** on-line editing systems by ***combining* them** for less than a quarter of the cost, in less than a quarter of the space. Fearful of the possibility that the impending competition could make its own systems obsolete, AVID went out and bought Soft Image ... not their equipment, ***the whole company!***

Practically every office or work station in my company has a 3/4" U-Matic VCR, and every one of our clients has an inventory of these machines. It's one of the ways in which we communicate. Well, the last such machine was produced by Sony more than three years ago. All of that equipment will probably be phased out altogether, along with several gazillions of 3/4" cassettes, in 2-3 years ... more junk which people and companies will have to pay to have carted away. We'll all be looking at high-definition tv on monitors of a different format and configuration. The only constant, we are told, is change ... but change today is occurring at a breathtaking rate: it has become harder and harder just to keep up, much harder still to stay ahead.

What does this mean for you, newly graduated** ...**and where does all of this leave you?

I've talked about the death of advertising, advertising-as-we-know-it, and the mind-blowing advances in technology, and I've tried to draw your attention to the ways in which these two phenomena relate. I may have discouraged you from looking for careers in traditional roles in traditional advertising agencies ... that is, with the exception of media departments, which offer the greatest opportunities for the new millenium.

Where *else* can you turn? How can you best apply your advertising, marketing, media and production skills and interests to build a career? I have a couple of suggestions:

If you've been paying attention, the first suggestion should be obvious:

With the advertisers, themselves.

More and more of the work previously done by agencies and their specialized sub-contractors is being done "in-house". Take your resume and your broad-based knowledge, and your iconoclastic ideas and your enthusiasm to the major advertisers. Become one of their house wizards, an artist-in-residence for Procter & Gamble, General Motors or MacDonalds. There has never been a time before when the executives of large corporations would be more receptive to the kind of polished presentation you might be able to make. Show them how to get a bigger bang for their buck and they'll hire you.

Second suggestion:

<u>With the Media</u>.

With the networks, with syndication groups and distributors, with large local stations in important markets. They, too, are doing more and more in-house, and they all need to be cutting-edge just to survive in their own competitive marketplaces. They're always looking for fresh blood ... *now*, more than ever. But for the time being, avoid <u>cable</u>: with only very few exceptions, it just doesn't pay well.

(Here's a retro idea....)

<u>In Radio</u>.

The entire medium went into the toilet for about 15 years, from the very late 60's to the very early 80's ... at which time radio was re-discovered and reinvented as perhaps the smartest and definitely the single-most cost-effective media buy, the medium that delineated market segments with a knife, permitting advertisers to talk directly to their targets via narrow-interest programming, with practically no spill-over. Ironically and happily, radio is *still* evolving. Notwithstanding its obvious finite limitations, it will continue to have the power to reach out as no other traditional medium can. Don't forget that radio is the model for narrowcast cable programming, but radio is immensely <u>profitable</u> and---by and large---cable programming is ***not.*** And most advertisers ***love*** radio ... or can be persuaded to.

And finally...

Grab the horns of the new technologies by

<u>Creating</u> <u>your own entrepreneurial start-up company</u>.

Design websites, utilize the resources of the Internet, think interactive. At no time in the entire history of communications and advertising have so many opportunities been available for creative, progressive, forward-thinking entrepreneurs. Like the Apple ads say: **"Think Different".** And like the Nike ads say: ***"Just Do It."*** And like Robin Williams said in "The Dead Poets' Society": ***Came diem!*** Seize the day!

This is the <u>good</u> news: you have the means to create your *own* future, and the timing has never been better. You are the fresh infusion that the industry desperately needs. It excites me to imagine what I would be doing if I were 20 years old today. I hope that you, too, are excited. I envy you, and I sincerely wish you all the best of luck and success.

Thank you.