The Revolution in Chicago's ad industry

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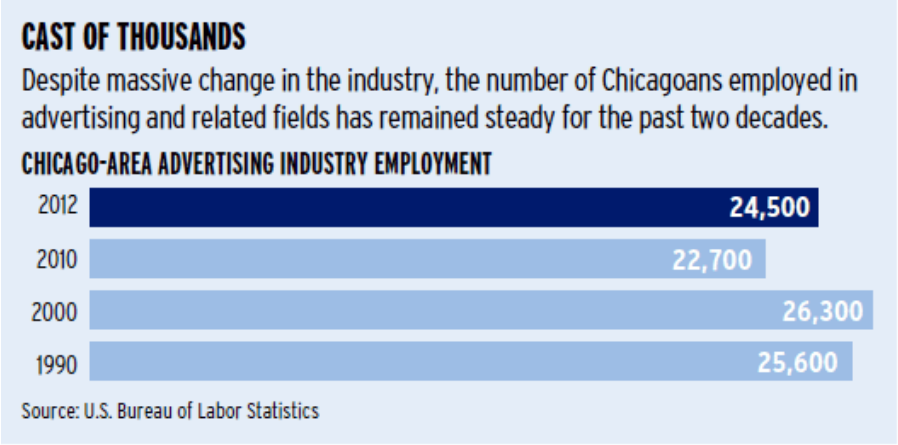

Take your pick: Today's advertising agency leaders resemble A) newspaper publishers in the '90s, before the bottom fell out of classified advertising; B) AOL executives in the early 2000s, before broadband demolished dial-up; or C) horse dealers in the early 20th century, before Henry Ford perfected his Model T.

The answer, of course, is D) all of the above.

"All of these industries were profiting by big margins and had no incentive to invest in the future," says Andrew Swinand, a former president of media-buying agency Starcom MediaVest Group, who now runs an advertising-oriented venture firm called Abundant Venture Partners in Chicago. "By the time they saw it coming like a freight train, it was too late."

The advertising business, which employs nearly 24,000 people in Chicago, is in the midst of a dramatic upheaval that threatens the basic agency model that has served blue chip clients since before Don Draper tasted his first drop of Canadian Club. Soon some jobs will be gone—and the ones that replace them will bear little resemblance to those of yore.

"Our business has changed more in the last five years than it has in the previous 50," says Ron Bess, CEO of Havas Worldwide Chicago, who has spent four decades as a local ad man. "We're riding a rocket ship of digital and social change."

CHICAGO'S ROOTS

Though New York is the epicenter of American media, Chicago cemented a leading role in advertising more than a century ago, thanks to the success of hometown catalog companies Sears Roebuck & Co.

and Montgomery Ward & Co. As industries from canned food to clothing began creating mass-produced goods, manufacturers, catalogers and retailers such as Marshall Field's scrambled to lure buyers with snappy text and appealing drawings.

The city's agency roots date to 1881, when Daniel Lord and Ambrose Thomas formed **Lord & Thomas** in the Loop. The firm eventually became Foote Cone & Belding, a predecessor of today's DraftFCB. Crain's sister publication Advertising Age was founded here in 1930.

Even though it lacked the glamour of Madison Avenue, Chicago's ad world factored significantly in the industry's creative revolution of the 1950s and '60s. A middle-aged, bespectacled Michigan native in perpetually wrinkled suits, **Leo Burnett** didn't look like the hip art directors and copywriters flooding New York, but he churned out icons including the Jolly Green Giant, Tony the Tiger, the Pillsbury Doughboy and, most famously, the Marlboro Man.

This was **advertising's golden age**. Television was coming into its own, and consumers were cheerfully opening their wallets. Advertising dramatically influenced consumption habits: Philip Morris & Co. sales skyrocketed from $282.8 million in 1954, before Mr. Burnett's ads went national, to $386.2 million.

That creative revolution was followed by a structural upheaval in the 1970s and '80s. During a protracted economic slump, large agencies snapped up smaller shops and began to expand abroad. The eight major U.S. shops then merged into larger, often foreign-owned entities. By the mid-'80s, the industry was dominated by a handful of large public holding companies, four of which remain: Paris-based Publicis Groupe, London-based WPP PLC, New York's Omnicom Group and Interpublic Group of Cos., also of New York.

Today, the ad business is undergoing a third revolution that makes the first two look almost simple.

Whereas advertising's first transformation was led by a small group of creative directors, and the second by a group of powerful businessmen, today's is being directed by the consumer—in other words, everyone. Thanks to social media and mobile technology, the one-way conversation between brand and shopper has morphed into a dialogue that is occurring at ever more neck-snapping speed.

While advertising's top tier recognizes that technology is changing consumer habits, the big agencies still make huge sums producing and selling traditional ads in the $65 billion U.S. television-commercial market. (Some estimates peg Leo Burnett's profit per commercial at $450,000.)

There's just one problem.

Thanks to DVR, says Alex Campbell, co-founder of Vibes Media, a Chicago-based mobile marketer, “I don't watch TV ads except for during football. I have Ad Block on my Internet; I don't look at spam in my email; and I don't read magazines except on my iPad. How would I advertise to myself?”

The **threats to the big agency model** have significant implications for Chicago's economy. For decades, agencies employed media planners and buyers who decided which medium—radio, print, TV, billboards or direct mail—best conveyed the ad while capturing the client's target audience. They negotiated pricing for each ad with sales reps from major magazines and TV networks, many of

whom were also based here. In addition to the impact on commercial real estate, these relationships support a large secondary economy of dinners, sports outings and manicure appointments.

But today much of that work is being automated by companies that allow advertisers to instantly buy digital ads directly from publishers. Such real-time bidding accounted for an estimated 35 percent of all digital display ads in 2012, up from nothing—yep, zero—in 2007. Many experts expect it to make up half or more of all digital buys in the near future.

To be sure, the big agencies haven't been ignoring the new world, setting up large tech departments and buying digital-first agencies.

“I've been in the digital space for 20 years, and I've been told for 20 years that we're going out of business,” says Rishad Tobaccowala, chairman of Publicis' digital agencies, Digitas LBi and Razorfish. “We're certainly not out of business today—we're five or six times the scale we were 20 years ago. We're in a business where we get paid by clients. When clients need change, we have to change or they leave us.”

Mr. Bess of Havas points to Burnett's integration with digitally oriented Publicis siblings Arc Worldwide, Digitas and Starcom as the reason it recently nabbed Sprint Corp.'s business. The wireless telecom company, which spends more than $1 billion on advertising annually, was the biggest of a handful of wins that helped big agencies add 700 jobs in Chicago in 2012.

But the public companies' need to meet quarterly earnings expectations creates a tendency to cling to old, lucrative models, many onlookers say. As a result, much of the revolutionary work is done by smaller firms.

Their tools are the explosion in consumer data and employees with the quantitative skills to exploit it. The Mad Men, many say, have been replaced by the Math Men.

Testimony of PAUL RAND:

Early in Paul Rand's career, public relations was the kid sister of the marketing communications world, struggling to be taken seriously.

PR was viewed as a fluffy discipline divorced from businesses' bottom line. In the competition for budget dollars, it often lost out to expensive advertising campaigns and marketing reports filled with data about customer habits.

But as broadcast and print media decline and social media becomes more influential, PR has ascended—and the word-of-mouth influence peddled by Mr. Rand's Chicago-based agency,**Zocalo Group**, is in high demand.

“The profession has moved pretty dramatically away from basic publicist tactics toward strategy,” says Ron Culp, director of the graduate PR and advertising program at DePaul University and a three-decade industry veteran. “CEOs understand that they no longer make a decision about what they want to sell to the consumer—it's what the consumer wants to buy from them. PR is wired to have those back-and-forth discussions with the consumer.”

Consumers who have learned to tune out the cacophony of brand status updates and requests for "likes" are often desperate for clear, trusted recommendations. So while hard-sell campaigns created by advertisers face consumer resistance, PR's softer approach can be more welcome.

As a result, PR agency revenue increased 10.4 percent in the Midwest in 2012, according to an annual survey by consulting firm Stevens Gould Pincus in New York. "If you're really good at social media, you're probably making six figures by the time you're 29," Mr. Culp says.

Zocalo Group is in the thick of this growth.

Mr. Rand, 51, formerly global chief development and innovation officer at Ketchum Inc., a New York-based PR shop, started Zocalo under the Omnicom umbrella in 2007. The first word-of-mouth agency launched by a major holding company, Zocalo began with 10 employees; today, it has 85. Mr. Rand declines to disclose revenue, but industry analysts peg it at around $15 million. (Late last year, Mr. Rand assumed the additional role of chief digital officer at Ketchum.)

When the company started, the industry strictly divided publicity between "paid" channels (print and TV ads) and "earned" channels (a mention in a news article or a Facebook "like" that was gained without paying). "Companies were spending a ton of money on print ads and TV spots, but there was this belief that you just couldn't pay people for their recommendations," Mr. Rand says.

With the rise of social media, however, "every consumer became a journalist, critic and publisher," he says. C-level executives "discovered there was real ROI to be found in identifying, targeting and reaching key influencers."

Today, no one blinks at a sponsored blog post or promoted tweet that has been created in exchange for money, so long as the content is clearly labeled.

Even consumer packaged-goods companies, historically huge ad spenders, are cutting marketing jobs in favor of leaner online strategies that include both paid product mentions and organic social media conversations. In 2012, Procter & Gamble Co. **announced plans** to eliminate 1,600 jobs and slash its $10 billion advertising budget, partly due to online efficiencies.

Beyond giving brands a cheaper way to get their word out, social media is handing PR agencies an elusive holy grail: hard statistics that demonstrate the impact of their work. "The age of guessing is long gone," Mr. Rand says. When Zocalo conducted a national test-drive tour of Nissan's electric car, Leaf, the agency reported results not only in "impressions"—a longstanding metric that measures the number of people who saw a piece of advertising or article mentioning a client—but also in the number of orders the campaign sparked: 20,000 before the car had even launched.

At the same time that positive social media interaction is boosting brand recognition, poor online reviews are imposing increasingly swift death sentences. A recent survey by Warren, N.J.-based marketing firm Lightspeed Research finds that almost 70 percent of people wouldn't buy a product if it had as few as three poor reviews.

To build their online presence and protect their reputations, corporate marketers will increase the percentage of their budgets spent on social media to 20 percent over the next five years, says

Suzanne Fanning, president of the Chicago-based **Word of Mouth Marketing Association**, a nonprofit trade group.

Safe to say, PR's spot at the adult table with other senior management is secure.

From this week's In Other News