Digital Transformation of the Media Agency Business Model

How has the media agency model been transformed by digital disruption and how can agencies change to be set up for success in the future?

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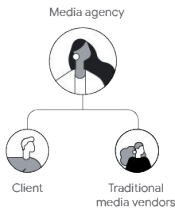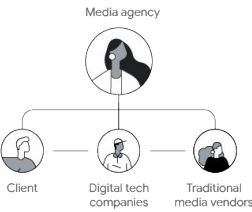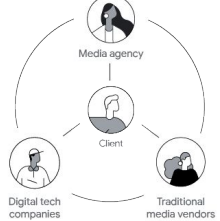Innovation and Marketing
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Intro and Overview of Digital Transformation Across Industries

Digital technology has offered new ways for people to interact with businesses, consume content, build relationships, and conduct purchases. These new modes of interaction have shifted consumer preference and behavior and led to new business models causing a need for businesses to adapt accordingly. Many examples exist of companies across various industries that have not adapted fast enough to avoid failure. Blockbuster in entertainment[1]. Sears in retail[2]. Kodak in photography[3]. These are just three examples, numerous more can be mentioned. One of the primary reasons for the failure of some strong industry incumbents is their persistence in adhering to old business models for too long and neglecting to take the appropriate actions to change. Media agencies are no different. Digital disruptions are changing the nature of the value delivered by these businesses to their clients, and are demanding new capabilities within the organizations. In this paper, we capture the nature of digital disruption in the media agency business model and provide managerial insights for successfully leading the necessary digital transformation. Our research included interviews with the leadership and other executives at Harmelin Media, a forty-year-old full-service media agency who has successfully navigated these changes.

Digital Disruption of the Media Agency Model

Over the last few decades, the media agency's model in advertising has transformed according to the introduction of digital modes of communication. The different stages of transformation in the media agency business during this time period is depicted in Figure 1: Evolution of Agency Model. This captures the changes in the lines of communication between the media agency, client, traditional media vendors, and digital tech companies. For the purpose of this paper, digital tech companies refer to large tech firms with digital advertising platforms.

Figure 1: Evolution of Agency Model

	Model 1: Traditional model	Model 2: Connected model	Model 3: Connected & collaborative model
Client / agency model			
Complexity of media landscape	Low complexity	Moderate complexity	High complexity
Key benefit	Operational ease and negotiation leverage	Integration of digital & traditional campaigns	Solving complex business problems
Agency value	Price negotiation	Tactical coordination of cross channel marketing efforts	Strategically driving full funnel business performance
Agency specialization vs. generalization	High specialization	High generalization	High generalization **AND** High specialization

The traditional media industry model, outlined as Model 1.0, shows the original three key players and their relationship before digital advertising entered the picture. In this model, media agencies held a lot of power as the gatekeepers to a client and their budget. They worked with clients directly to understand their strategy, and then worked with media vendors separately to negotiate rates. Clients and media vendors seldom spoke directly.
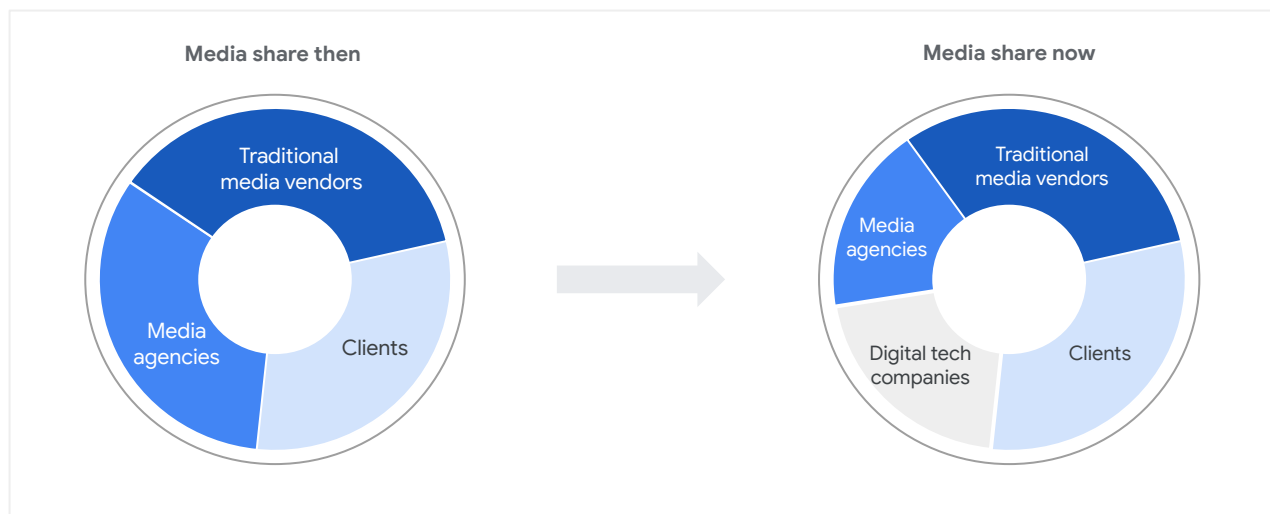
Large platforms like Google and Facebook make up the majority of US digital ad spend with

>50%

In Model 2.0, consumers shifted their attention online and tech companies were introduced so brands could engage with consumers digitally as well as through traditional channels. The role of the agency shifted towards being more transactional, as the clients set strategies and the agencies executed the strategies through digital buys. Over time, tech companies made digital platforms more user friendly and easy to navigate, inviting clients to bring these activities in-house, leading to more direct involvement of clients with the tech companies from which they were buying digital media[4]. This shifted the working dynamics, as clients began coordinating strategy and making decisions with the tech companies sometimes in the absence of their agency.

The involvement of big tech companies meant media agencies having to share more of the media relationship with the client. In the media landscape prior, media agencies were sharing media relationships with their clients and traditional media vendors. Now, the same business is being shared amongst three other players, and in some cases, the digital tech companies would circumvent the media agencies altogether. Within the digital tech category, large platforms like Google and Facebook make up the majority of US digital ad spend with over 50%[5].

Figure 2: Share of Media Business Then and Now

Media share then

Traditional media vendors

Media agencies

Clients

Media share now

Traditional media vendors

Media agencies

Digital tech companies

Clients

The communication disconnects across clients, agencies, traditional vendors and digital tech companies often led to suboptimal allocation of resources and knowledge gaps. Eventually, clients and vendors recognized the breadth of knowledge media agencies held was necessary to success. This shifted them into Model 3.0 which is outlined in more detail in section 4.2. Media agencies, clients, digital tech companies, and traditional media vendors all have a seat at the table.

These transformations across the three models outlined above have, however, introduced multiple challenges for the agency business. Consequently, the agency business needed to build new capabilities and implement organizational changes. In the following section, we outline the specific organizational and market related challenges that agencies face.

2.1 Digital Media and Shifting Client Expectations

The need to communicate with consumers has always existed, but the options for how to do that have changed. Digital media has moved beyond one medium, and now encompasses many different channels, devices, technologies, and platforms.

> " We [agencies] have to find where people are, and we need to communicate with them, and we need to resonate with them. The digital transformation that has taken place has complicated that communication model. "
>
> - *Connor Elliott. Chief Technology Officer of Harmelin*

This challenge is one of the reasons that agencies have been pushed from solely an executional role to a more strategic one, with continuing execution. In the same interview, Greg Ebbecke, Vice President of Business Intelligence at Harmelin, described the switch.

> " Not to say that strategy wasn't part of that initial world where there were fewer channels, certainly, there was strategy, but the lack of options made it straightforward. "
>
> - *Greg Ebbecke. VP Business Intelligence at Harmelin*

Agencies must now have a deep understanding of the entire array of channels, both traditional and digital, to be able to bring the most value to their clients. The result of the new channels and technologies has been evolving client expectations concerning results. Google's introduction of Cost per Click ads shifted focus to Return On Investment (ROI)[6]. Digital media made it possible to track a user at each step through the funnel. The increase of data led to an increase in measurement possibilities, leading clients to higher hopes for what their agencies can deliver for their business. Where clients were previously content with receiving top level marketing metrics such as impressions or views, Harmelin says clients now want their agencies to deliver on a higher volume and variety of KPIs.

2.2 Increased Need for Data Analysis and Tech Skills

One of the challenges with the traditional media agency model has been the lack of real-time data and clarity on the effectiveness of advertising spending. Digital technology introduced a plethora of new data points, requiring media agencies to introduce new roles[7]. For Harmelin, this meant introducing teams like the Data and Strategy team. Harmelin's Data and Strategy team actively facilitates the ongoing collaboration and communication necessary across media, data and technology teams within the agency, with clients and across technology partners. In addition, Harmelin estimates about 10% of employees, or 30 people, have job descriptions that are focused specifically on software development and data sciences. But tech is becoming a part of more and more roles and is becoming part of their agency's new value proposition, touching virtually every team and person within the agency. To make the technology and data more accessible to the agency and clients, Harmelin has built out a proprietary platform to integrate (harvest, clean and unify) data from any source, which is something that sets them apart from tech platforms which tend to focus on data from their platform only.

> Harmelin estimates about 10% of employees, or 30 people, have job descriptions that are focused specifically on software development and data sciences.

2.3 Responsibility of Handling Data

The digital innovation that has taken place in advertising has allowed marketers to target individual users at the right time, with the right message, for the right product based on a user's profile. Marketers benefit from being able to more easily confirm that their marketing is being consumed by their intended audience, leading to large marketing budget efficiencies. However, it has also led to privacy concerns. Agencies have had to become privacy experts to ensure they are not just analyzing the data but doing so in the most responsible way. As the CTO of Harmelin, Conor Elliott says

> " We recognize the importance of first-party data and we seek every opportunity to leverage it. However, we do so in a responsible way by being prudent and specific with our requests for data sharing and access and making sure personally identifiable information (PII) is processed through data partners who help anonymize the information. "

Media Agency Transformation: The Emergence of a New Model

The challenges proposed in section 2 have resulted in a need for a new media agency model, one that fulfills the new client expectations, agency responsibilities and talent requirements. This next section will focus on the shifts in internal capabilities and structures, moving from the old agency ways of working to the future agency setup. Figure 3 depicts the nature of changes in the evolving business models of agencies.

Figure 3: Nature of Changes in the Agency Business Model

Old Agency Model	Future Agency Model
Tactical	Strategic
Siloed planning teams	Integrated planning teams
Media knowledge needed	Data and tech knowledge needed
Responsible for media results	Accountable for business performance
Agency communicating with client marketing teams	Agency communicated with multiple client teams (IT, finance, data science, etc.)
Little shared data	All data shared
Set contracts based on agency responsibility	Flexible contracts based on value agency brings to client

3.1 Value Proposition: From Tactical Negotiator to Strategic Performance Partner

To stay relevant, media agencies must emphasize their strategic services. As the big tech companies continue to evolve their platforms, the executional activities for buying and optimizing media gets easier. Clients who have the budget can simply hire someone with platform knowledge to execute on the strategy they have come up with[8]. Jen Harlacher, Executive Vice President of Media Services at Harmelin used "tactical" to describe the old client-agency relationship, "Whereas now, the role has become much more aligned with business strategy in pursuit of performance. It's less about just negotiating the cheapest rates, but more about how we can really move the business forward with attributable results. That requires every team member to have a strong understanding of our client's business and access to data. This allows us to develop insights into opportunities and accelerates optimizations to drive bottom-line impact. As a media agency, Harmelin now has a vital seat at the marketing table." Although roles have become more technical, the job of a media agency now is also to take a broad view of the client business in order to know how to use each channel to accomplish the goal at hand.

A strategic and analytical value proposition can also help mitigate concerns about technology encroaching on media agency responsibilities. While technology can automate many steps in the business processes of the agency models, there can be limitations to the effectiveness of these automations. Human efforts can work in complement to tech-based automation. Harmelin outlined an example where an automated media mix model produced the media plan recommendation, but a human was needed to analyze the recommendations and point out certain limitations that the model could not have identified. Knowing what technology is capable of doing for an agency and marrying that with the strategic skills of your agency employees enhances the role of each.

> " It's a happy medium between the model and our experience that makes a wonderful plan, "
>
> – *Mary Meder, President of Harmelin.*

3.2 Internal Team Changes: From Siloed to Integrated

As the value proposition for agencies shifts, so will the way teams need to be organized internally. Agencies built out new teams to take on the nuances of each digital channel, while also keeping existing teams focused on traditional work. This created complexity in the agency model, making it easy for silos to be created. Agencies must, however, resist silos and implement the integrated approach that clients will seek moving forward.

"We still have specialists, but we're interconnecting the roles and allowing more agility and fluidity between what used to be segmented, siloed channels." said Janine Cross, Senior Vice President of Digital at Harmelin. For this reason, Integrated Planning teams will be more prevalent in agencies to ensure their media planners understand all the channels they're working with.

3.3 The New Client-Agency Relationship: Process to Outcomes

The client agency relationship of the future will not look the same as it has in the past. As mentioned in section 2.1, clients have increased expectations for results. This has made agencies responsible for more than the standard media metrics of impressions and reach. Media agencies are now expected to drive business results such as sales or subscriptions. In this new model, agencies must be able to both forecast and deliver on business metrics that were not previously in their purview.

Now that agencies are responsible for more than just media, they will have to deepen their relationship and communication with client teams. When agencies were responsible for marketing, they simply needed to communicate with the marketing team on the client side. Now, agencies need to build relationships with a broader variety of teams at the client including internal analytics teams, data scientists, finance and legal.

> "
> The relationship between the client and our business has become more dynamic. We have more touch points. We're working directly with IT teams, analytics, and financial teams at the client. It's not just through the marketing group. Collaborating with these other teams has become a necessity of the success of the marketing group. "
>
> -   *Connor Elliott. Chief Technology Officer of Harmelin*

It's not only the agency that needs more touchpoints with the client, but also the clients will expect more touchpoints at their agency. In a traditional agency model, Account Managers owned the relationship with clients[9]. **"More sophisticated clients are really demanding to have access to hands-on-keys people," said Janine Cross.** While Account Managers still play a key role in the agency composition, clients should have access to agency contacts who are in-platform for quick answers.

Lastly, as digital makes the media buying process faster, clients also expect faster turnaround times[10]. While clients in the past expected quarterly updates on performance, they now want to know what is happening as soon as a campaign launches and how it can be optimized right away. In this new model where agencies are increasing communication with clients and gaining more data, clients need to feel assured that the increased data is lending itself to faster, more actionable insights.

Transformation Path to the Future Model

Based on our research and field interviews with executives in leading agency businesses, we believe that agency businesses need to make changes to their organizational capabilities, client engagement processes and talent profiles in order to compete effectively in the emerging agency business model.

4.1 Hire the Right Talent and Develop that Talent

Staffing your agency with the right talent who can understand data, technology and the digital space will be key to success, but you'll also need to find the right personalities. Harmelin, who has a high employee retention rate, has found success in looking for people who have a constant sense of curiosity. As digital technology continues to evolve rapidly, this ensures talent is willing and eager to learn how to shift with it. Hiring the right people and developing their talent once they are onboard will help shift an agency-client relationship from transactional to strategic, as the client gains trust in the agency's ability to become an integrated extension of their marketing team. Harmelin believes talent retention can also be positive for client retention, as brands are able to build long standing relationships with their agency counterparts and maintain their go-to contacts.

4.2 Find the Right Partnership Model Based on Transparency

In the agency model of the future, giving everyone a seat at the table will help integrate the best of all worlds. To achieve maximum effectiveness, the agency, the client, and media vendors need to be in partnership to develop the most strategic plans for solving complex business problems. This partnership should be based on transparency and knowing the strengths each party brings to the strategic development process. Clients have the best view of the company's business challenges and objectives. Digital tech companies power the engines for agencies to execute buys, receive data and optimize, and have a deep understanding of their company's platforms. Media agencies bring their unique value too. They have expertise across many different business sectors and media partners, so they have valuable insights and shared learnings from multiple perspectives. In particular, agencies have a unique advantage and ability to combine data from many different sources, whereas tech companies can only gather limited

data from other platforms. Lastly, agencies have expertise across all channels, bringing both specialized and broad strategic perspectives on how to use tech platforms to achieve the client's goal. There exists in this partnership model the opportunity for all parties to work hand in hand, which also applies when creative agencies are involved, adding a fifth party to the mix[11].

4.3 Prioritize Flexibility

Agencies also need to find ways to increase flexibility in their contracts with clients, so that new addendums are not necessary each time there are changes in the scope of work[12]. The scopes of the past clearly outlined set responsibilities for the agency which were agreed upon with the client. As changes continue to occur, clients nonetheless need their agencies for tasks beyond the original scope of work. While agencies and clients are still trying to find the ideal contract setup that works for both parties, some ideas have been proposed. Scott Davis, Chief Revenue Officer at Harmelin believes contracts in the future should be based on the value an agency brings to their client. Value may be tied to time saved or tied to performance. In the future, contracts must be independent of exact tasks to leave room for the presently unknown[13].

4.4 Increase Speed Through Real Time Data Processing Tools

As noted earlier, agencies should find ways to increase the speed and flexibility of their work. This will allow for them to focus less on the tactical day-to-day responsibilities and focus more on coming up with innovative solutions. Agencies need to be able to predict what their clients need, and the only way to get answers ahead of time is to have the necessary data already on hand. This requires the right tools, but also requires trust as data privacy becomes more of a concern[14].

One of the internal tools Harmelin has built to increase data sharing and improve speed over competitors is Harmelin GeoViews.

> " GeoViews is one of the most powerful skills within our data and technology framework. It gives us the ability to uncover hidden growth opportunities for our clients and serves as a shared tool between Harmelin and our clients to see media's daily impact on business performance with geographic precision "
>
> -   *Greg Ebbecke. Vice President of Business Intelligence at Harmelin*

GeoViews combines media data, sales data, and market data all into one dashboard, making it easier and faster to visualize data, glean insights and take action.

In summary, digital transformation has disrupted many industries, causing existing players to change their methods or become obsolete. In exploring digital transformation's impact on the media agency business, it is no exception. The problems and solutions of the past are not the problems and solutions of the future. The agency model of the future is faster, more strategic, more analytical, and requires a deeper agency-client relationship. While the agency still retains focus on performance, performance will not only be defined by the lower funnel, but will also encompass an intelligent mix of all funnel stages and channels. We have discussed Harmelin case study as an example of a organization and business model in transition from the traditional agency business model. But this change is a reality for all traditional agency businesses. If media agencies embrace digital transformation as an advantageous opportunity, rather than a threat, there is much room to succeed. **As Mary Meder put it, "Just keep changing. You have to. You can't stop for a moment."** Agencies can ignore the need for this change only at their own peril. The need for this urgency is also the emergence of new digital native agency business models that start with no legacy and are able to build digital capabilities faster.

A Timeline of Transformation at Harmelin

1982	Harmelin is founded by Joanne Harmelin as a media buying and planning agency.
2006	Launched in-house digital media practice (paid search, display, video, social, rich media)
2009	Formation of specialized digital ad operations team
2012	Launched DeskOne, the agency's in-house programmatic trading desk
2014	Launched real-time cross-channel reporting dashboards
2015	Launched three new data-centric agency practices: Business Consulting, Data Science and Technology Development
2016	Launched first round of proprietary data tools for agile planning and execution
2017	Expanded digital services to owned and earned media: SEO, Site Migration, Local Presence, Reputation Management
2018	Launched Location Intelligence practice
2019	Launched Influencer Marketing practice
2020	Launched Ecommerce and CRO practices
2021	Earned distinction as a Google SA360 Certified Agency
2022	Launched Harmonee, a proprietary data and tech solution suite

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