

The Competitive Challenge in Post-Internet Advertising: Appraising the Functional Divide Between Agencies and the Newcomers

**W. Wossen Kassaye
Metropolitan State University of Denver**

Although they have made modest gains in revenues and employment, ad agencies face challenges in utilizing different media platforms and the latest technologies. Advertisers' negative perception of ad agencies as not having the expertise needed for post-Internet success was the first major threat agencies faced, resulting in increased competition from newcomers. Advertisers' adoption of algorithms generally, particularly AI-related algorithms, poses the latest threat to agencies. Based on a conceptual framework, the article analyzes the threat factors agencies face and proposes some strategies to contain the newcomers' encroachment and new technologies such as AI.

INTRODUCTION

Advertising agencies (hereafter, Ad agencies or agencies) have been under siege since the early 1990s. In contrast to their successful market dominance in the previous 110 to 120 years, in the last thirty or so years, they have been impacted by the Internet and the competitive encroachments of the newcomers. The challenges they face have multiplied with advertisers' adoption of different technologies and/or new ways of advertising (e.g., social media, word-of-mouth advertising, programmed advertising, analytics, video shorts, and generative artificial intelligence (AI) such as Gemini and ChatGPT).

Typically, competition comes from employees who leave ad agencies for one reason or another to set up their own shops (Sommers, 1990). In the current environment, ad agencies face competition from other agencies and search engines, digital marketing firms, web developers, public relations firms, promotion agencies, direct marketing firms, consultants, even social media companies. (Hereafter, we shall refer to this group as the newcomers.)

The newcomers are competing for ad agencies' traditional business; some continue to attempt to replace them altogether (e.g., programmed advertising, social media platforms). Because ad agencies were perceived as less proficient in the expertise needed to navigate Internet-related innovations, advertisers have opted to give the job to newcomers or even bring the task of advertising in-house altogether. Agencies have been unable to shake advertisers' perception that they lack the technological skills needed for post-Internet success. This liability notwithstanding, in recent years, they have shown modest improvement in revenue and employment growth (<https://www.ibisworld.com/industry-statistics/employment/advertising-agencies-united-states/>). In fact, agencies express cautious optimism about AI and its ability to help with "personalization, creativity, and consumer rights" (Goldman, 2024).

This is a positive development. It contrasts with agencies' reaction to the challenges created by the Internet. As Manning (2020) notes, ad agencies did not see these challenges coming.

Indeed, although agencies now have a better understanding of the marketplace compared to the past, surveys suggest that in-house capabilities are growing (<https://www.ana.net/content/show/id/79185>).

Vis-à-vis the disruptions and concomitant challenges created in recent years, we may ask the following questions: Could AI be the next frontier for competitive encroachment? Would advertisers add AI to their repertoire thereby further reducing the task given to ad agencies? Will the advantages of AI prompt advertisers to bring the task in-house the way they did thirty or so years ago, thereby impacting client retention efforts of agencies?

This article aims to provide a conceptual framework for evaluating these challenges and forward propositions by helping agencies evaluate and/or even combat the challenges they face. In addition, it attempts to answer the call for research on alternative courses of action (e.g., Zaltman and Moorman, 1989; Clancy and Shulman, 1991) that could benefit agency functions and management (Cook and Dunn, 1996).

The article is divided into five sections to give the reader a better perspective of the challenges agencies face. The first section discusses how agencies evolved over the years; the second, outlines how and why the disruptions pose a threat; the third, analyzes the impact of the functional divide between agencies and the newcomers; the fourth, outlines the impact of the disruptions in terms of agencies' power to negotiate fees; and fifth, forwards a conceptual framework for evaluating the strategic issues agencies may consider.

THE BIRTH OF AD AGENCIES: THE EVOLUTION

Since agents started to canvass businesses on behalf of publishers 160 years ago, the share of tasks performed by agencies on behalf of advertisers has grown progressively. History shows that the profession soared to new heights with Ayer's "open contract," ending space brokerage and "ready-made advertising," and ushering in the new era of "made-to-measure advertising" (Attwan, 1979). Since then, agency-advertiser relationships have flourished, with all advertising accounts going to agencies. And agencies have successfully maintained this comparative advantage through continuous innovation(s).

The image of agencies revolves around specialized tasks such as creative execution, media planning, buying, and scheduling. They are seen as the most consummate organization in terms of flexibility and interrelationships. Agencies often sell their services to advertisers not only based on their proposals, but also on their organization's perceived strengths, experience, employees' specialization, cost structure, and so on (e.g., Lamons, 1996). Predictably, agencies maintain day-to-day contact with the "department that tends to oversee both advertising and marketing strategy" (Sommers, 1990). They provide any needed assistance and hold hands if necessary, staying connected with their clients before, during, and after performing their contractual obligations. They have done so through the years.

As noted earlier, agencies have experienced dramatic growth in the previous 110 or so years. However, in the post-Internet era (i.e., the last thirty or so years), they have faced huge technological and competitive challenges. In the main, they have been slow in reacting to the adoption of different communication technologies by households and advertisers. Furthermore, they have been perceived as lacking the required skills in the new tech and apps (e.g., use of algorithms, analytics, and so on).

Notably, though, agencies have made some gains in their readiness to increase their market share in recent years. According to a 2023 survey, 87 percent of agencies are optimistic that their revenues and concomitant market shares will continue to grow (<https://www.insiderintelligence.com/content/agencies-approach>). They now employ more people than they did five years ago (<https://www.ibisworld.com/industry-statistics/employment/advertising-agencies-united-states/>).

The Evolution of Functions Performed by Agencies

Agencies' evolution shows that organizations do in-house what they can. They turn to outside specialists for things they cannot accomplish well themselves (Attwan, 1979; Sommers, 1990). They have done so with advertising since 1840, when the first full-time ad business started. By 1880, "agents" were performing advertising functions on behalf of sponsors, allowing the advertisers better use of their time and resources. This bond has remained strong over the years, with more media vehicles being added to the responsibilities of agencies. Such a tradition has practically made advertising off-limits to non-agencies.

Only in a few isolated cases have companies attempted to bring this function back in-house (e.g., Fitzgerald, 1992).

The newcomers are filling the perceived proficiency gap and needed expertise in Internet-related innovations. In some cases, they are trying to replace agencies by specializing in some tasks normally performed by agencies and/or automating the chores related to ad executions.

General marketing service providers engaged in consolidations through *lateral* and *downstream* or *upstream* acquisitions, thus posing a threat to agencies. The newcomers are seen as having better Internet knowledge and technological proficiency (e.g., Kuth et al., 2007). Also, agencies are seen as less capable of providing more precise *metrics* on ad effectiveness. The prospect of power consolidation in Internet access appears strong, especially among search engines. Web3.0 is an excellent example of this threat, thwarting the targeting and/or re-targeting effort of third-party advertisers. As discussed in subsequent sections, third-party cookies will be gone. This change may allow the likes of Google to have greater control over search-related advertising, increasing their revenues from ads. In contrast, the prospect of media-agency monopoly by ad agencies appears limited or even nonexistent.

MARKET STRENGTH AND POST-INTERNET DISRUPTIONS

The Internet has been a major force of change. In the post-Internet years, more organizations have turned to their own talent pool or actively sought the skills of non-agency specialists (e.g., *Economist*, 1998; Kassaye, 1997; Williamson, 1997; “The New Goliaths...” 1997). Surveys conducted by the industry every 5 years show that in-house capabilities have not declined; they have grown (e.g., <https://www.ana.net/content/show/id/79185>).

Accept or Reject Word-of-Mouth Advertising

Accepting or not accepting word-of-mouth advertising was an important decision, requiring a compromise in how agencies and advertisers saw such advertisements as the objective.

Initially, agencies and advertisers rejected Facebook’s (FB’s) approach to ads –i.e., ads based on word-of-mouth. Advertisers as well as agencies wanted to be in control of the message, leading the viewer/audience in a methodical step-by-step process that progresses from awareness to interest to desire to action (AIDA) model. It is no surprise that GM and other advertisers left FB initially only to return as its popularity grew. As opposed to the usual hard-sell approach wherein the brand is the focal point, in FB’s approach the brand is evaluated in the context of the individual involved in a one-to-one or one-to-many interactions.

By being the first to use smartphones as the point of access, FB (now Meta) was able to reach more individuals (especially the coveted young crowd) thus making itself attractive to advertisers. Patently, FB’s word-of-mouth advertising gave a concession to soft-sell advertising over the traditional hard-sell model. In so doing, FB has changed the face of advertising in social media.

Without doubt, the challenges faced by the industry in the last three or so decades, in one form or another, have been associated with the Internet. Consider the major changes that continue to affect agencies and advertisers in the post-Internet era:

- issues with Internet speed and service (such as broadband, 5G).
- fragmented broadcast and print market.
- the popularity of free news and the decline in newspaper readership and subscriptions.
- the popularity of on-demand programs and shows by the likes of Roku, Apple or even Samsung.
- the popularity of e-mail as a preferred form of staying in touch and the decline in the use of traditional mail.
- the growing importance and popularity of search engines.
- the intense competition among social media companies as well as the competition between traditional media and the new media platforms.

- the huge divide between rural and urban areas in online access.
- the surprising success of video shorts such as TikTok (*Global Stats Omni, 2022*).
- the content moderation debate among social media companies and even some states.
- the threat of algorithms in general and AI-related algorithms in particular.

The Existential Threat From Generative AI

A major competitive threat comes from AI. Could agencies afford to ignore AI? Thanks to the marketing effort of Microsoft and Google, generative AI is being adopted at the fastest pace in history; in just one year (beginning November 2023), over eighty million people have started using it. AI has become an existential threat to the industry. AI tools are encroaching on content creation, development, and even execution of ads. AI can be used to create images, including videos from text. AI's abilities to mimic voice and appearance have already created doubts, not to mention the fear people entertain about deepfake. For instance, using a 15-second recording of any voice, OpenAI can create a synthetic voice that cannot be easily differentiated from the original. Could such stories create doubts about all messages?

Undeniably, the speed that AI apps promise to accomplish ad preparation and execution tasks is likely to affect the whole process—from content creation to ad execution. Naturally, the most impactful threat by far seems to come from artificial AI's image generators (e.g., Adobe Firefly, Craiyon, Midjourney, Canva, Photoleap, etc.). Consider OpenAI's Sora, a new AI model. It promises to create artificially generated videos that look and sound realistic in a fraction of the time it takes an ad agency to do so (<https://www.youtube.com/watch?v=DeYK5zDGbzI>).

Another threat is viewers' lack of interest in ads. Skippable ads have become important in accommodating viewers and audiences' disinterest in ads while reducing the threat of total ad rejection. This threat, in turn, has espoused the current scramble for contact information and user permissions. Prospective advertisers are doing the same to secure permission from as many individuals as possible.

To advertisers, it does not seem to matter that the newcomers have no prior experience in ad-making (Rigdon, 1996; Solov, 1995). A key question, therefore, is whether the advent of the Internet will be the proverbial "broken window," allowing further encroachment into ad agencies' traditional stronghold, both *upstream* and *downstream*.

WHY THE DISRUPTIONS POSE A THREAT

In digital advertising, the competitive scope in the *value chain* is not based on media buying—that ship sailed a long time ago. Agencies cannot afford to rely on just billing (e.g., Manning 2020). The fact that anyone with the necessary tools can now build a website, execute a banner ad, and reach global consumers simultaneously eliminates the entry barriers. In addition, the simplicity of executing Web ads, the adoption of a sliding fee, and the absolute cost advantages of the medium jeopardize current compensation structures. These developments increase the attractiveness of the Internet-related platforms as an alternative to traditional media.

The question, therefore, is whether the newcomers can use their Internet-related skills to leverage their position and lure customers from traditional agencies. This has two distinct implications. First, to provide full-blown advertising service, the newcomers must trade up, moving *upstream* in the *value chain* to areas long acknowledged as fortresses of ad agencies. Second, to resist market share loss, agencies may have to manipulate the playing field toward their strengths by accommodating advertisers' requests for digital ads while maintaining all other accounts. Their leadership in traditional media may be used as a selling point. In the process, the functional convergence between ad agencies and the newcomers may decrease the perceived distance between the two.

P#1: *The greater the perception that the newcomers can scale the competitive ladder, of course, the better the prospect for competitive encroachment in other areas.*

The Internet will likely continue changing the ground rules in fee structure and ad execution strategies. The overall implication is that, to maximize the gains from innovations rationally, as economic theories dictate, agencies should use their resources in the most viable way, subject to exogenous constraints.

Advantages of the New Communication Technologies

Furthermore, the Internet promises to connect better with population pockets, such as Millennials, and Generations Y and Z. The same is true for the youngest cohort yet --Generation Alpha. Notably, though, the difference between linear TV and the Internet-related media (e.g., YouTube) is fast disappearing because of the convergence that started with WebTV and has since improved. Innovations continue to help bridge the gap in formats between online and linear TV. Nonetheless, in terms of interaction potential, at least for now, streaming programs and shows provides advantages over television. One huge advantage is the ability to provide additional *metrics* on actual ad-to-purchase conversion rates.

Thanks to the likes of Roku, linear television can be personalized. Nevertheless, traditional television watching is passive, albeit with occasional *muting, zipping, and zapping*. It is a much more relaxed activity, requiring little or no involvement on the viewer's part (Krugman, 1965; Krugman, 1969; Kitchen, 1986; Lin, 1992). The consumer may even occasionally sleep through a show. Unlike TV, the streaming option offered by Roku, for instance, pauses the show; and prompts the viewer to 'click' on "yes" to 'continue' when and if the viewer wants to. If there are no viewer reactions, Roku displays a blank screen.

Another difference is that those who access the Internet using smartphones or computers are highly involved with the device, using it as a point of entry for so many other things: e-mail, entertainment, work, etc. TV networks are also trying to reach more audiences through on-demand formats and proactive use of e-mail-messaging.

Loss of Viewers and Global Reach

The competition between the new Internet technology and existing technology (TV) is evident in the depth of debate about viewership decline. Any spike in viewership because of format changes may not translate into long-term gains; nothing short of a miracle might stop the migration to online shows or programs. Certainly, TV will still be used for entertainment, but less and less to watch regular programming.

Having proven its potential to reach younger, wealthy consumers in several countries, the Internet has become attractive to advertisers. In reaching across the globe, the Internet is the best medium without comparison. Such a potential has allowed Meta to reach three billion people. In satellite TV, ad campaigns in one market may spill over across countries. In Internet-related programming, the problem can be minimized through localization--the potential to custom-fit the selection and present a program in the user's language of choice.

Another advantage is their precise information on users in real time: who they are, what ads they are looking at and for how long, etc. Users provide the likes of Roku and YouTube with this data as a precondition to using their services. Most advertisers use 'cookies' to collect data on visitors. Privacy issues are at the center of the objections to this type of information gathering.

FUNCTIONAL DIVIDE BETWEEN AGENCIES AND THE COMPETITION

To gain a sense of the scope of the competition between agencies and the newcomers, it may be necessary to examine the tasks performed by each. This evaluation is consistent with industry practice because talent is the most important commodity (Flinn et al., 1995; Lamons, 1996). So, what are the inherent similarities in creative skills (the advertising art) and other advertising-related functions performed by agencies and the newcomers?

Differences in “Creatives”

The marketing tasks performed in digital/online, and conventional linear TV are:

- (1) *Full marketing services*: marketing research, strategic planning, public relations, response handling and management.
- (2) *Creative services*: creative direction and management, art and graphics, distribution and coordination, strategic evaluation.
- (3) *Account management*: specialized market studies, coordination of activities and links; and
- (4) *Other executive chores*: integrating marketing functions, legal matters. (See Table 1).

TABLE 1
TRANSITIONS FROM ONE MEDIA PLATFORM TO OTHER PLATFORMS:
POST-INTERNET AND POST ARTIFICIAL INTELLIGENCE TRANSITIONS
IMPACT ON EARLY-STAGE ACTIVITIES

<p>A. Activities and Functions Likely to Benefit from AI Support and Function Automation</p> <ul style="list-style-type: none">• Full Marketing Services: Algorithms to Serve as Decision-making Tool• Marketing Research: <i>Metrics</i>:<ul style="list-style-type: none">○ Effectiveness of the Communication Mix○ Frequency○ Reach○ Duration/Continuity• Efficiency in Communicating to Target Market• The Need for Constant Update: Media Cost in relation to Market size.• Response Measurements• Traffic Handling and Management• Full AI Supported Analysis plus the use of Algorithms to Serve as Input in Updating Data:• Sales Promotion• Public Relations <p>B. Activities and Functions Worth Looking Into</p> <ul style="list-style-type: none">• Consolidated Creative Management• Art and Graphics• Digital Production• Virtual Reality, Augmented Reality, and Mixed Reality Use and Adoption• Strategic Evaluation:• Social Media Platform v. Linear TV.• Streaming –Skippable Ads, Regular Ads• Brand Positioning Evaluations and Adjustments. <p>C. Activities Maintained and Consolidated with the Help of AI</p> <p><i>Account Management/Executive Chores</i>:</p> <ul style="list-style-type: none">• Specialized Market Studies• Coordination of Activities and Links• Integrating Marketing Functions• Legal Matters• Registration
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These tasks transcend current functional differences between agencies and the competition. However, because they have succeeded in generating responses, search marketing companies and other newcomers

may see some of these functions as superfluous. This may well be an aberration caused by the novelty of the medium. The arrangement is likely to change in response to the complexity of the task and/or how easily it can be commoditized (see Tables 1 and 2).

Ad agencies can create powerful slogans and equally powerful copies that might increase sales. The belief is that they have the necessary skills to write copy that holds attention, informs the subject about an offer, and persuades the prospect to act. Their time-tested marketing concepts, principles, precepts, and stratagems are expected to help them create ads that have universal appeal.

Although they are learning about advertising theory on the job, in contrast, the newcomers are seen as providing *added value* that agencies and/or advertisers lack. Their reputation is centered on the use of apps and programming-related skills; they are seen as capable of creating powerful animation and graphics (Lamons, 1996; Johnson, 1996). If such considerations influence a company's decision to award its ad account, the new entrants may be favored over agencies, thereby drastically shifting the circle of power.

For instance, in skippable ad-execution, the commonly understood and shared principles or precepts are very few, unlike those in regular hard-sell ads. Moreover, there are no commonly accepted guidelines, such as a hierarchy-of-effects model, leading the process step-by-careful-step to the desired goal. In skippable ads, the information is not necessarily organized to persuade the users or fit some predefined customer profile.

Personality and Execution Style Differences

Still another dimension that may separate ad agencies from the newcomers is the perceived personality differences between copy writers and graphics specialists. Initially, both copywriting and computer graphic design tasks were individualistic. However, both the copywriter and the computer graphics specialist may finish their jobs with input from others. The follow-through in both may be group-oriented and involve few individuals. Web developers, for instance, work from concepts or ideas, not scripts. Two or more individuals may work on the graphic design, seamlessly joining the pieces (e.g., Collopy, 1996). In this sense, the new media platforms are far more oriented toward group interaction than copywriting. Another difference is in tests used to determine the acceptability of the finished product. Copywriters engage in consumer behavior research; computer graphic design specialists perform few such tests (see Table 2).

Observations and interviews suggest that the proficiency gap is accentuated by differences in two attributes: (1) the composition of the people behind browsers and social media platforms, and (2) the personality types attracted to ad agencies and graphic studios. First, digital accounts (e.g., viral ads on YouTube) are managed by Generation Y and Generation X; traditional accounts mostly by Baby Boomers and some X-ers. Second, ad agencies are seen as people-oriented, the newcomers as machine-oriented. Moreover, like art design people, the tech-oriented individuals are seen as introverted and ill at ease with public affairs or dealing with crowds. As such, the newcomers are seen as focused on programming; they are seen as inattentive to the needs of clients (*cf.* Lamons, 1996). One perception is that these specialists come in and fix the problem how they see fit and not necessarily how clients prefer. They may inform the client only after the facts. Deserved or not, such stereotyping may have accentuated the functional differences between ad agencies and the newcomers. According to published sources, this problem has been evident as early as 1995 (e.g., *Advertising Age*, What the Nation's Top 20 Agencies Are Doing in the Interactive World, p. 52.)

Far more important, though, are the execution style differences. To ad agencies, the most important skills revolve around creativity. Concept is everything. Execution merely follows what is outlined in creativity; as such, it can readily be outsourced as has been in reading scripts, filming, doing voice-over, etc. For the newcomers such as web developers, however, concepts are seen as inseparable from execution. They try to facilitate the union of concept and art -simultaneously focusing most on what the finished form looks like. Invariably there is no meaningful "work-in-progress" to show to others. Such is not the case with ad agencies' scripts and execution.

Interestingly, though, the newcomers have been trying to broaden their horizons by bringing into the fold individuals whose responsibilities include coordinating various activities and creating an interface with the outside world. Initially, one individual did all the online advertising chores, with occasional input from

like-minded X-ers. The webmaster provides creative direction, constructs, and customizes the hardware and software. The project manager oversees how the job is assembled and how the contents are displayed. In this sense, the newcomers have adopted an organizational structure that increasingly resembles ad agencies.

POTENTIAL CHANGE IN BARGAINING POWER

If ad agencies are perceived as deficient in post-Internet innovation proficiencies, the newcomers can keep the new accounts better. On the downside, however, the newcomers lack product and market knowledge in traditional media. Consider the industry's reactions to Super Bowl ads by the newcomers (online agencies). Being new to TV, their ads did not seem to create as much buzz as ads by traditional agencies in general. Lack of experience in applying advertising theories may explain the perceived liabilities newcomers face in their forays into other media. Thus, the proposition:

P#2a: The greater their desire to move from the initial stages of creating a digital presence to developing full-fledged interactive virtual stores, the greater the competitive advantage of the newcomers over ad agencies.

P#2b: The more successful the newcomers are in cultivating an image that they excel in creating content and measuring ad impact, the greater the threat they pose to ad agencies in other advertising functions.

P#2c: The greater the perceived threat from newcomers, the more urgent the push to change agencies' functional structure and readiness through (i) acquisitions, (ii) mergers, and (iii) bringing in qualified talents.

Possible Combative Reaction

One could easily imagine a situation in which the newcomers have extraordinarily little guarantee that the income stream from their new accounts will continue. This fear may propel them to take actions to convert the short-term accounts into long-term relationships. To do so effectively, they must transform their services by adding *upstream* functions that agencies perform. They may do so by emulating ad agencies' creative skills and undercutting their prices.

The reality is that the newcomers have as much chance of persuading their clients as do agencies. Besides, because agency-client divorces and separations are so common, unknown firms have a reasonable chance of being considered by advertisers. In turn, the newcomers' move into agencies' turf will likely put greater pressure on the latter's fees. However, agencies may meet the competition headlong to retain accounts. They may also absorb the new firms through acquisitions. Therefore,

P#3a: The greater the newcomers' interest in maintaining or increasing market share, the higher the pressure to move upstream, into ad agencies' traditional domain(s) especially for non-search advertising companies. For search advertising companies, however, the move is likely to be downstream. And,

P#3b: The greater the threat to traditional agency domains, such as broadcast and print media, the more pronounced the pressure on agencies to reduce fees or accept lower negotiated prices for their services.

Fundamental Shift in Agencies' Traditional Advantages

The overlap and blur between ad tasks performed by advertisers and agencies alike may cause conflict or aggravate existing friction between the two. It may also threaten agencies' regular accounts, resulting in losses in market share (e.g., Flinn et al., 1995; Fitzpatrick, 1995). Other conflict areas may include how the *metrics* are derived, the search algorithms are structured, rates are charged, and results are arranged.

On the surface, given the nature of ad agency contracts with clients, it may be surprising that advertisers give their accounts to firms with no history. Looking deeper into agencies' billing practices and implicit

bias in media purchase, however, it is not at all surprising that agencies are bypassed. Through billings alone, agencies may have eliminated themselves unintentionally from being considered at least initially (see Table 2). Nowhere do the advantages of the Internet, such as direct access and interactivity, become more crucial in selecting agencies than in market demands wherein storefront advantages are critical.

**TABLE 2
GENERAL PRODUCTION AND AI SUPPORTED ACTIVITIES TO BE PERFORMED
FOR ALL PLATFORMS**

- Execution of advertising plan - writing, designing, illustrating the ads
- Positioning against target market media profiles
- Looking for favorable advertising opportunities
- Integration and coordination of advertisements with other marketing functions
- Configuring the tech savvy needed for data processing and meeting contractual obligations
- Verifying ad content and watching out for AI-manipulations affecting the client’s brand or business.
- Use AI to analyze content and feedback. Use the feedback to align ads with platforms and target markets.
- Auditing and billing for services rendered - appropriate only if service is rendered by other firm(s)
- Address the competitive considerations, including such media tactics as budgets, clutter, schedules, lead times, duration, etc.

Specific Functions Along Traditional Lines and Supported by AI

Creative Services:

Consolidated Creative Management
 Art and Graphics
 Program Production
 Program Distribution and Coordination
 Specialized Market Studies
Account Management and Account Executive

Chores:

Integrating Marketing Functions
 Examining Legal Matters

Marketing Services:

Media Planning
 Media Buying/Registration
 Contract Negotiations
 Sales Promotion
 Public Relations

Finance and Accounting:

Billing
 New Business
 Office Management

For a long time, agencies’ ability to excel in print and broadcast media has allowed them to erect entry barriers to newcomers. Likewise, the newcomers’ ability to advance along the ad-making learning curve (digital advertising and Internet-related activities in general) has been a key in their ability to get ahead. Agencies must maintain a lead in technological innovation to keep potential industry entrants out. The adoption of AI-supported ad agency functions is the most critical and algorithms are used to automate activities. Speed is key. A market share loss may further reduce ad agencies’ bargaining power, be it with clients and/or media access providers.

***P#4a:** The longer the delay in embracing Internet-prompted innovations and supporting the functions they perform by AI, the greater the potential for losing market share to conglomerates and other newcomers.*

As industry intelligence, blogs and literature suggest, agencies score high on reputation, quality of relationship, product, and market knowledge. Therefore,

***P#4b:** The faster agencies succeed in pushing a more integrated approach using AI, the brighter the prospect of leapfrogging over the competition and reestablishing competitive advantages.*

P#4c: *The more adept agencies become in using AI to integrate the marketing communication of clients across different platforms, the better the prospect for maintaining a competitive edge.*

Continuous v. Discontinuous Innovations

According to Sommers (1990), the decision to hire outside specialists versus giving the task to in-house employees depends on the economic environment. Advertisers are more likely to prefer bringing in outsiders than do the job themselves in a “discontinuous environment,” in which the economic uncertainties are high. This allows them to keep their head counts down while avoiding long-term commitments. The pressure to downsize seems to reflect similar considerations.

Advertisers’ Reactions

In-house creative banks may benefit the most from the trust their organizations place in them (e.g., <https://www.ana.net/content/show/id/79185>). Their most attractive selling points are cost advantages and the ability to focus on the immediate task *in real time*. When and if the focus is on instant appearance on the cyber-map, in-house advertising is ideal. In particular, the push for such an option seems strong when the desire to participate in the digital advertising has two goals: (1) “first-mover” advantage, and (2) keeping up with the competition or saving face by adopting a “we do...too” strategy.

For advertisers, the ability to provide instantaneous “content” to a target audience will help overcome a critical problem: “how to ensure that ads reach the right people” (e.g., Ziegler 1996). Nevertheless, their knowledge of the market and/or product may be tenuous. Another problem is that, even in multibillion-dollar companies long acknowledged for their integrated efforts, the final product tends to be incomplete and un-integrated with other company-wide efforts (Kassaye 1997). It is becoming increasingly necessary to keep up with blogs, product/service reviews, etc., while focusing on brand advertising. As a result, the added chores are making planning and execution more difficult. Therefore,

P#5a: *The greater the perception that agencies do not have what it takes to service a client’s account (coupled with in-house cost and time advantages), the better the prospect for increasing agencies’ marketing functions.*

Nevertheless, as firms move away from creating a presence to other objectives, such as sales, their need for advertising expertise may change.

P#5b: *The more focused a firm’s need for an integrated marketing strategy, the greater the desire to seek outside expertise, especially advertising agencies.*

PROJECTING NEW IMAGE

Agencies may find AI promising in helping with their ‘creatives.’ As much as the push for metrics continues to dictate advertising expenditures, search advertising companies have some advantages over agencies. Over time, though, the *metrics* may turn into commodities. If agencies do not catch up in this domain, they may fall further behind in their perceived competitiveness. The reverse is also true; the *metrics* may be commoditized only up to a point. The balance may have to come from better and different measure(s) of creativity, not just clicks. The tactics and strategies that are believed to help minimize the competitive assault are shown in Table 3.

**TABLE 3
STRATEGY MATRIX**

		Media Platform Focus		Summary of Specific Communication Strategy
		Internet-Related	Alternate Media	
Communication Objectives	Presence	Divide task into <i>upstream</i> and <i>downstream</i> functions focusing on target-specific activities: Emulate successful website designs and ad formats. Engage in Relationship building. Develop target-specific programs. Outsource web-accounts, while exploring merger and acquisition possibilities. Build extensive database for improving content.	Finding new <i>breakthroughs</i> and using traditional media to full and <i>maximum</i> potential: Broaden media focus by including other platforms. Reestablish contact, maintain relationship. Communicate desire to meet advertisers' evolving needs. Continue to tap into expertise in traditional media. Concentrate more on tactics such as 'guerrilla' marketing, viral marketing. Embrace public relations functions.	Develop immediate response to overcome competitive threat: Immediate impact focus Use links, including blogs, to increase market presence. Put promotional info about company on website(s), inform who was helped and how. Provide <i>metrics</i> on reach and effectiveness.
	Sales	Capitalize on buyer behavior knowledge and theory! Build Virtual Reality based experiences, simulating buyer actual purchase process. Focus on content by determining specific market needs. Build on direct marketing efforts.	Consolidate alternative media accounts and narrow the advertising-sales loop. Increase accountability by focusing on ways that increase sales. Embrace interactive technology. Accommodate wireless broadband access to capitalize on full future potential.	Exploit knowledge and experience in direct marketing and buyer behavior. Focus on long term relationships. Facilitate transactions/sales (short-term focus) Provide <i>metrics</i> on <i>sales response, positioning strategists...</i>
	Image	Perform focus group studies to determine acceptable designs. Experiment with distinctive designs and formats. Develop multiple sites for each target market. Simulate design changes to improve attractiveness. Increase entertainment component.	Maintain traditional entertainment focus while increasing variety. Target populations such as Generation X	Use the Internet to supplement digital marketing efforts and/or other media efforts. Integrated marketing focus Provide a self-help site to inform what the agency can do. Encourage visitors to take notice in all ways.
	Summary Strategy for Each Medium	Develop an integrated communications strategy	Exploit current relationships and cultivate into their accounts	

The strategy matrix (Table 3) shows that agencies may evaluate their strategic options based on specific objectives. First, to overcome the '*disconnect anxiety*' created by Web3.0, ad agencies may have to leverage

their existing relationships with clients as well as their clients' customers. Depending on specific communication objectives such as *Presence, Sales and/or Image*, the options open to agencies are shown in the table. The suggestions include the following:

- Using an advertiser's website as launch-pad. To overcome the absence of third-party cookies under Web3.0, agencies must collect data on their clients' customers; they must also engage in direct marketing on behalf of their clients. Agencies may have to re-calibrate their skills in identifying and/or pursuing target markets and re-thinking how they may regain advertisers' confidence.
- Promoting relationship skills along with *creativity*. Of all the competencies in their *repertoire*, the most conspicuous appears to be their ability to create good working relationships with advertisers. Not only would this help decrease their '*disconnect anxiety*,' it may help reverse the loss in market share.
- Facilitating transactions and encouraging visitors to look. Table 3 suggests that agencies could make the most of their digital marketing effort by doing additional things, such as building virtual reality, augmented reality, and mixed reality sites.

CONCLUSION, STRATEGIC PLANNING AND CREATIVE IMPLICATIONS

Advertisers see a proficiency gap between what the newcomers offer or appear to be capable of offering and what ad agencies lack. Not only does this reflect a reversal of the competitive dynamics that once favored agencies, but it also suggests a change in orientation and outlook. To grow their business, then, ad agencies may need to bring under their wing AI to help with tasks associated with performing digital advertising tasks. Important consideration may also be given to engaging in virtual, augmented, and mixed reality to enhance agencies' offerings.

With attention becoming a "scarce and valued commodity," the content created, and the platforms chosen are of great interest to all concerned--advertisers, agencies, consumers, and access providers. Agencies may continue to leverage their *creatives*, growing their accounts for premium brands in specialty and shopping goods categories.

The newcomers will continue to automate some tasks. Ads that last microseconds and/or are skippable will be commoditized. AI will be used to create content, generate images, and manipulate voices for these ads. Agencies face challenges in growing such accounts. Nevertheless, given the complementary nature of ad agency tasks and the service(s) the newcomers provide, it may be to the mutual benefit of both to work under one umbrella. When this is not possible, strategic alliances might help provide an integrated marketing program and help minimize the growing conflict between agencies and clients.

Unless agencies readily embrace AI by using it to support their functions, they stand to lose their recent gain in market share.

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