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## AGENCIES IN THE CURRENT CRISIS - EXECUTIVE SUMMARY

We are pleased to share results of a qualitative survey among independent agencies on five continents. We looked at nine critical areas to provide insights for the development of management strategies and tools during this difficult time. The survey took the form of mailed questionnaires supplemented by many personal interviews with CEOs/CFOs. The turn out was substantial with a response rate of over 29%.

### 1. The current crisis is predicted to extend to the second quarter of 2010.

This is the majority view expressed by 66% of respondents\*. A substantial minority thinks the crisis may take 12 months or less to end, especially in the Asia-Pacific region. Agencies that described themselves as providing integrated services also tended to predict a shorter horizon as well as agencies with assignments from FMCG and other service industries; this latter group expect business to stabilize and pick up again as early as the last quarter of 2009.

By contrast, agencies handling advertising for clients in the financial /insurance, retail, automotive, luxury or building industries see predominantly an 18 to 24 months horizon for recovery.

### 2. Two thirds of agencies discussed crisis impact with staff - many as late as end 2008/beginning 2009.

We had anticipated more and earlier meetings (the CEE being a positive exception) yet were surprised about an apparent “wait-and-see” attitude and delayed action. In an industry that prides itself to anticipate trends we will venture the guess that many agencies concentrate more on managing their client’s problems than on planning for their own business. This can become fatal when income sources dry up and advertiser demands shifts.

On a more positive note: all agencies stressed better utilisation of resources and operating principles, especially time management, and additionally (over half) gave personal advice to employees. A large portion made special efforts to dispel negative psychological attitudes. The prevailing positive sentiment was to concentrate on existing business and to add value to agency client relations by advising advertisers on how to help their customers - which in turn should also help the agency.

### 3. Agencies that also offer consumer/trade promotion and online/digital services were more upbeat.

Client demand is said to be shifting to more “measurable” services. Agencies good at providing those stated overwhelmingly that spending levels were being maintained while media advertising was declining and traditional agencies that had relied on those, therefore, suffered more strongly.

Almost half the agencies stated that demand for BTL increased significantly, followed by strategic consultancy and PR, the latter often described as crisis PR. A minority also mentioned political work -- perhaps reflecting on opportunities seen by individual agencies to help communicate the wide array of economical support programs launched by governments and institutions.

Network agencies\*\* mentioned strategic advice/client consultation twice as often as independents which may trace to resources available within network structures.

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#### Footnotes:

\* Percentages are numerical and not weighted by revenue. Total staff employed by participating agencies was close to 9000.

\*\* Almost half the participating agencies were aligned to independent networks. Where appropriate, the summary distinguishes between independent and network agencies.



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4. On average agencies predict income losses of 14%.

The CEE region shows a high of 19% and Asia-Pacific a low of 8%. Other areas were on average. Western Europe predicted a relatively modest 12% but also had the highest number of “not know” responses. EMEA had proportionally more agencies predicting negative impact of more than 20%. In the CEE and Asia-Pacific network agencies tended to predict more severe impact on income than independents whereas in North America it was independent that fear to fair less well.

5. Over 50% of advertisers renegotiated projects that agencies had already started to work on.

This picture was most grim in Western Europe and CEE where numbers reached 75% / 60% respectively. Often, one third or up to half of all projects were affected. Regions where this was less observed - namely Asia-Pacific - may have to brace themselves if the trend catches on. Local media are criticised for stimulating such development through reports of successful advertiser action which may stimulate further pressure and negotiation of lower fees.

Nearly 40% of all agencies reported complete stoppage of one or more projects since the beginning of 2009. Again, Western Europe leads in this while Asia-Pacific comes last.

6. About half of all agencies plan staff reductions in 2009 by an average of 15%.

Staff measures are planned by two thirds of all agencies in the CEE region, Asia-Pacific ranks lowest with 20%. In some cases the crisis seems a “welcome” excuse to weed out excess personnel that was hired in anticipation of continuing strong budgets. Concurrent with downsizing, the majority of managers indicated to use freelance talent more in future. Sectors especially affected by this are creative and media. The latter is a concern for agencies that maintain in-home capabilities and are now considering outsourcing.

7. More than three quarters of agencies acknowledge that the crisis forces them to sharpen their skills.

With 74% new business is mentioned most often, followed by client leadership (45%), negotiation skills (43%), creative planning (33%) and positioning (31%). The perceived need to improve negotiation skills and client leadership jumps to levels above 60% among agencies that already encountered fee reductions and project stoppages. CEOs admit to “weak defences” when confronted by procurement officers who usually lead negotiations for their clients. They regret not to have “educated” their clients earlier when margin pressure was less tough.

Some remarkable differences exist across regions and are commented in the regional summaries:

Regions	New Business	Client Leadership	Negotiation Skills	Creative Planning	Positioning
Global Results	74 %	45 %	43 %	33 %	31 %
West Europe	80 %	34 %	31 %	30 %	13 %
CEE	73 %	59 %	27 %	18 %	64 %
EMEA	100 %	66 %	68 %	40 %	66 %
Latin America	50 %	71 %	75 %	24 %	28 %
North America	75 %	52 %	61 %	59 %	43 %
Asia Pacific	80 %	17 %	35 %	50 %	17 %



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8. Agencies that see positive opportunities as result of the crisis all have strong planning capabilities.

More advertisers are said to turn to agencies for help. Those that have capabilities offer strategic consultancy, even though many CEOs point out the speculative nature of such engagement. The concept of “true business partnership” benefits those agencies that invested in consultancy skills before and neglects those that saw their function as mere suppliers of services. The latter are more vulnerable to other outsourcing opportunities that advertisers will now explore.

9. The current crisis does not stimulate independent agencies to join networks; likewise network agencies are not motivated to leave or change their network status.

The apparent indifference of independents towards alignment may be a disappointment to network operators who did little to promote their benefits in the past. On the other hand, the level of member retention is reassuring despite genuine criticism by a minority group about the quality of advice or help offered to members during the current crisis. The true test of membership value would be a study among advertisers rather than agencies.

**In summary**, Vale International believes the economical impact of the crisis has reached agency communities in every corner of the world. Some felt the impact early; others feel its effects in slow motion. Unquestionably, the crisis promotes change and that will stay with the communications industry long after the recession is over. One critical effect will be the emergence of numerous “small enterprises” founded by out-placed agency-personnel. Another will be the formation of small local networks assembling complimentary services. Both these market participants will offer quality services at much reduced cost and add pressure on agencies to prove their value for clients

Most data supports economic doubt and pessimism but pessimism will not help CEOs manage the current situation. Pessimism has an uncanny knack of being self-fulfilling. It is time to tune up the entrepreneurial spirit that propelled the formation of most independent agencies by concentrating on improving efficiencies of operations, pairing services to paid demand and promoting a sense of true partnership with clients --- as these must come out of the recession first before agencies can benefit once more.

Below some random quotes from participating CEOs that may stimulate a more positive mind set:

- *“Move closer together, re-incarnate the “family feel” which launched us and ride it out together”*
- *“Raise cash position to be able to hire the best people that will become available”*
- *“This is the chance of our lifetime; the crisis will make us stronger”*
- *“The economic downturn will change the marketing needs of clients - not eliminate them”*
- *“Social marketing and growing environmental awareness will create new opportunities”*
- *“Clients will become more pragmatic and chose agencies much more for business contributions rather than a fancy name or wild creativity”*
- *“Once clients get used to the practice of prolonging payment to agencies and suppliers it will be difficult to bring them back to more normal calendars later”*
- *“This is a good time to help clients; advise them to do the same with their customers and the agency”*
- *“Keep on working hard and don’t think about the global crisis”*
- *“Cost control and pricing pressure will survive the crisis and we need to be better prepared ”*
- *“Look for ideas with cross-over-benefits for several clients that add value to them and us”*
- *“Honesty and transparency is what consumers demand now; search for ways how to use this to benefit your brands and clients”*