

# Research and strategy: a fall from grace

How can agencies regain respect as strategic partners? **Bruce Hall**, Howard, Merrell & Partners, suggests they start by doing some research

**F**INDING THE SECRET door back into the client's executive suite is a perennial topic of debate for ad agencies these days. As it should be, because occupying the strategic high ground is the key to being well loved – and well paid. Agencies would like nothing more than to re-enter the golden age when their advice and counsel, not just their creative product, was indispensable to any successful marketer. Unfortunately, those days are long gone.

This seems paradoxical, given the increased maturity of the advertising business, and the size and scale of its agencies and holding companies. How did it happen, and what can be done about it? How can agencies retake their role as strategic partners rather than ad shops?

## How we got here

No single factor drove this change. Indeed, a panel of ten seasoned veterans would likely have ten different opinions. These could range from the increased dominance of account management and media in the holding company environment, to proliferation of promotional marketing and new media, to loss of creative edge as the industry's pioneers left the business, to increasing sophistication of marketers within client companies, to ... (place your personal favourite here).

We would not argue that these trends haven't played a role, but we believe that a key factor has been the devaluation of strategic, research-based thinking in today's agencies. We also believe that this was an unintended consequence of an agency-pricing model that failed to evolve in response to a changing economic environment.

One hallmark of the golden age of agency life was the full media commission. In the full commission days, agencies used to make lots of money and also do most of the research with customers.

It was a golden age for consumer goods marketers as well – the companies that not only spend a large portion of the advertising dollars, but also set the pace

for industry marketing practices. The high inflation of the 1970s and 1980s solved all their pricing problems – packaged goods companies routinely set retail pricing in lockstep with commodity prices, confident that consumers had little recourse, or understanding of the relatively small component that commodities represented in the finished products. So they were willing to pay full commission for full service.

The end of inflation spelled the end of this comfortable relationship. Fmcg brands have struggled to survive in a low-inflation environment. Many have not. In the US, second and third-tier brands have been auctioned off to financial holding companies at fire-sale prices. The first-tier brands are the only ones that get marketing support, and not much of that.

The tipping point for agencies was when clients finally learned how much profit agencies made (thank you, Maurice and Charles Saatchi), which led to the decline of full commission.

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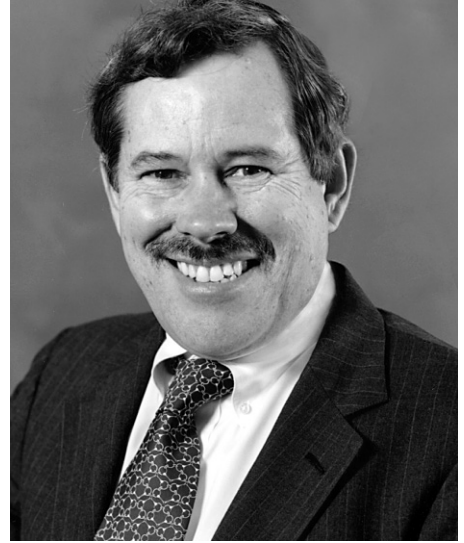
Agencies tried to maintain the commission-based pricing model by cutting costs, rather than changing the way they did business. Full service offerings went early. Clients knew they needed media buyers (and by combining the budgets of several clients, they recognised that agencies had bigger clout), they knew they needed creatives, they even knew they needed account people. But they already had research departments.

Agencies, to keep their costs down (and partly because agency research directors weren't particularly powerful), abdicated their role as keepers of customer understanding. Basic research migrated toward client companies. And under the economic model of the agency, research was a cost, not a profit centre, so it went.

It has been replaced by account planning, which turned out to be so fundamental a part of creative development that it had to be formalised as part of the offering. Once clients were no longer paying commissions that allowed creative agencies to do their own field research, a mechanism had to be found to maintain that function, and that is account planning. The end result is that the creative department in most agencies is now a bigger part of the agency than it used to be – but only because everything else is smaller.

Other functions had helped give the agency strategic depth, but the most critical function lost was traditional marketing research. For all its turgid, data-driven obscurity, its infuriating tendency to bury important insights under statistical averages, and its propensity to provide detailed answers to irrelevant questions, research is still the engine that drives consumer knowledge in the most sophisticated and successful marketing companies. And agencies have little to offer their clients to help fuel it. They thought they were losing money on research, and walked away from it, and as a result, have lost their strategic value.

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#### **Research vs planning**

Some definitions are important here. Market research collects data, either qualitative or quantitative, that is as objective and unbiased as possible, and gives the marketer the best possible indication of whether customers will buy his product, who will buy it, and how much they will buy. It also provides diagnostic information on why they aren't interested, if they're not. More important, it provides diagnostic information on why they are interested, if they are, because if that changes, it can change demand for the product.

Fundamentally, market research is risk management in two dimensions. The first is reducing the risk of introducing a product, a brand, or a marketing programme that will fail. The second is the risk of not introducing a product, brand, or programme that would have succeeded. Research tends in practice to be heavily weighted toward the former rather than the latter dimension, but both should be equally important.

Account planning, as practised in US agencies, is not research. It is product development. The product agencies produce the advertising, and account planning optimises that product at the development stage. It is analogous to the sensory panels and new product research that fmcg companies conduct as part of

their R&D. It is extremely valuable when used right, but it is not market research, and shouldn't be treated as such.

This is not to argue that there can't be a strategic (message) role for account planning as well as a communications role. But from our observation, that strategic role rarely extends past the pitch, and is usually based on a very thin level of qualitative research even then.

Clients are well aware that agencies no longer do real research. Agency research departments command little respect among client research departments, because they know agencies do not have the capacity to do research. Clients do respect account-planning insights. But these are respected as a research and development function, not as research.

What passes for research in most ad agencies today comes in two flavours. It is either secondary data pulled from the internet, Frost & Sullivan, and Wall Street, or it is a commissioned primary study conducted by a specialised research supplier, and repackaged by the agency. Real primary research has been fully out-sourced.

Unfortunately, out-sourcing research has been ineffective. It is tempting, because there are many competent and well-qualified research suppliers and consultants available to provide answers to research questions. They do an excellent job of designing questionnaires, fielding surveys, and analysing data. They are often very sophisticated at supplying answers. But the critical flaw in this is not the sophistication of the answers. It is the sophistication of the questions.

Any adequately framed question can be answered with research; research usually breaks down when it asks the wrong questions. And the more statistical reliability those answers have, the more spurious are the results. That is one reason qualitative research is so popular, because it is more forgiving to badly designed research. Even the most incompetent moderator with the most

irrelevant discussion guide occasionally allows a respondent to spontaneously reveal an unsuspected insight.

In-house research staff are invaluable for good research simply because they are closer to the problems, and have more insights into the relevant questions. They are the link between marketing issues and researchable questions. Without them, account managers are much less able to frame business problems as questions that will lead to insights.

#### **Testing the product**

A second-order effect of the demise of research in agencies is abdication of responsibility for testing the creative product. At one time, agencies were leaders in the quest for new and better ways to evaluate the effectiveness of the ads they produced, to diagnose weaknesses, and identify refinements. That leadership has been transferred to clients.

Not only have agencies walked away from conducting their own research, they have rejected the whole idea of conducting research on their own product. They do so only if forced to by the client. Even then they allow the client to control the research.

Creative directors, copywriters, art directors, and agency executives are united in their opposition to testing their creative. They may give lip service to the importance of testing, but fundamentally their strategy is to avoid it if possible. When pressed, they agree to do some focus groups. Pressed further, they agree to communications testing, to see if the consumer is getting the agreed message. Failing that, they retreat to some form of norms-based perceptual measure, and ultimately, if forced to the wall, they have to live with one of the dreaded 'persuasion tests'.

We seem to have reached a point where agencies have surrendered this battlefield to the client. They have given up on looking for new and more effective testing methodologies. I have heard creative directors say, 'Look, we hate testing,

but we've learned to beat the system by getting the scores we need, so why bother to change?" So research is resisted, rejected, avoided, and confounded wherever possible.

There are two negative consequences of this situation. First, the testing methodologies used today are fundamentally little changed from their origins 30 or 40 years ago, because agencies have not led innovation in the field. And because clients are the major users, the testing methodologies in widest use rely on measures, like recall, that reward linear, left-brain advertising at the expense of advertising that works through the emotions.

Most significant is the effect on the relationship. Since the client's interest is often in finding a better agency, not finding a better ad, testing contributes to the agency-client game of musical chairs.

### Trust me

As a consequence, agencies are bringing their customers a product that has never been tested in the market, and saying, in effect, 'Trust us, this will work.' And losing market share to other forms of marketing communications that can deliver test data. Why should this be a surprise?

In fact, research has been conducted. Creative directors and agency executives have 'researched' their own experience, biases, prejudices, and opinions to reach a decision on what will and will not work. That research, based on a 'sample of one', substitutes their individual beliefs about the needs, wants, and desires of the target audience for real data about its needs, wants and desires. Since real target audiences very rarely line up demographically or attitudinally with creative directors or ad executives, this represents either admirable confidence or appalling arrogance, depending on your perspective.

Advertisers, who do use market research, are more humble than this in their judgments about their own products, because they know well that they have made many, costly mistakes in the

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past. And they have been held accountable for them. When major manufacturers bring new food products to a retail customer, they bring test data, too. And if the test data didn't look good, the retailer knows they never would have seen the new product in the first place.

Let us imagine a world where all marketers operated like the agency business. Pontiac would design and manufacture a new car model based on their qualitative insights into where the market was heading when the design process began. They would then roll out the new model to their dealers and distributors, and say, 'Here it is. Trust us. But if you want to know whether you should take a chance on ordering in quantity, feel free to do some research among prospective car buyers to see how they like it, compared to the competition.' And the dealers would contract and pay for the research.

Doesn't it seem likely that dealers would quickly learn to surf from maker to maker each year? After all, they would hold the commanding heights of information, and would use it to dominate their suppliers. The auto industry would

start to look like the ad industry. Pretty soon, carmakers would be gathering in remote watering holes for annual association meetings to lament their lack of strategic importance.

### Where do we go from here?

Advertising agencies need to find a way to bring traditional research back into their skill set, give it focus, resources, and respect. They need to redevelop the competence to do market segmentation studies, quantitative positioning research – and ad testing. This will require fundamental changes in the way advertising is created, sold, and paid for. Fee-based compensation is one alternative. Fees can be structured to create incentives for agencies to build real competence in research.

With this competence will come strategic horsepower, and client respect for what the agency can add to the marketing mix, beyond advertising. This competence should also drive a serious search for better, data-driven solutions to ad testing, solutions that adequately measure the things that really count in great advertising – emotion, relevance, and meaning. The solutions are out there, and agencies should be leading the search for them.

Demonstrating the courage to test their own product should be a strong statement to clients that agencies believe in the power of data and research to inform business decisions. Their willingness to invest in this on their own behalf will help establish their credibility as serious marketing strategists.

Realistically, this requires considerable courage on the part of agency executives. They will view it as one more obstacle in the quest to hire and retain top creative talent. But research is not going to go away, and neither is copy testing and pre-testing. Clients will demand it and use it, whether agencies like it or not. It would be better to grab the nettle than to continue to feel its sting. ■

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