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Agency Transformation

An Interview with Mark Penn, Chairman and CEO, MDC Partners

Mark Penn:

Mark Penn is the Chairman and CEO of MDC Partners and the author of "Microtrends Squared".



The complexity of managing marketing communications across multiple touchpoints is overwhelming for most brands. But where do they turn for help? Traditional agencies have been slow to embrace technology. Consultancies offer strategic muscle but come up short on creativity. And digital specialists often lack the bench strength to tackle the intricacy of designing an end-to-end customer experience.

All of the global agency holding companies recognize the growing gap between customer expectations and the disjointed brand experiences offered by their clients. But before they can ride to the rescue, they must undergo a radical transformation of their own - offering clients a more unified service model that makes it easier to take a collective approach to problem solving.

Mark Penn, the CEO of MDC Partners, the 9th largest agency holding company in the world, recognizes the urgency of transforming his \$1.5 billion enterprise into a "modern marketing

company of choice". Last year he made a calculated bet that MDC could respond more nimbly to the needs of clients than its much larger competitors, buying into the company with a \$100 million investment from his private equity firm The Stagwell Group. He took over the company at a critical time, its stock price in need of resuscitation.

Now, after a year of fixing the balance sheet, Mark Penn has set out to reinvent the company's service model, knowing that clients are looking for answers to their business challenges beyond advertising. The "partner firms", as MDC likes to call its family of 50 agencies, have been clustered into synergistic hubs called "tentpole networks", making it easier for their leaders to collaborate and pitch new business together.

While the pandemic may have put a crimp in his plans, Mark Penn is renowned for turning emerging trends into opportunities. He earned fame as Bill Clinton's pollster for six years, helping him win re-election in 1996, partly by convincing him that he needed to win over a new swing voter called the "soccer mom". He went on to serve as Chief Strategist to Hilary Clinton in her 2008 campaign to win the Democratic Presidential nomination. He has also been a senior adviser to such high profile leaders as Bill Gates, Steve Ballmer, Tony Blair, and the late Menachem Begin.

A decade ago, Mark Penn published a ground-breaking work called Microtrends which posited that opportunity can be found by identifying small slivers of the population who have a disproportionate influence on social, cultural and political trends. His latest book, Microtrends Squared, builds on that original work, describing a new set of forces at play shaping the direction of society.

SS **Stephen Shaw (SS):** What is a “microtrend” exactly?

MP **Mark Penn (MP):** The basic notion of a microtrend is a small, somewhat imperceptible group which is becoming super important. It might only represent one percent or so of the population, but it punches above it’s weight. For every trend, there’s a countertrend – what we call “Newton’s Law of Trends”. Take the example of people buying smartphones - a megatrend, right? But a microtrend is people buying flip phones who say, “I can’t stand this smartphone technology, it’s too complicated. It’s not for me.”

SS How do these groups become noticeable?

MP It takes a leap of creativity, combined with data, combined with validation. For example, I once had this hypothesis that parents at work were much stricter with their kids. That turned out to be false - it was the other way around. Because they were at work so much, they felt bad about being away all the time. So they were easier on their kids - the opposite of what I expected. One of my favorite microtrends involved pet ownership. In the past, pets were bought by families mostly, usually because kids demanded them. But then a lot of single people began to buy pets as a household companion. They tended to spend more on products like GMO-free pet food. Then there were empty-nester couples who bought pets because they didn’t like the house being so quiet. And so they pampered their cat or pooch with premium pet food. These trends may seem trivial and insignificant, but they can have an enormous impact on society.

SS By their nature, are microtrends transient? That is, as society evolves, new niches evolve, others disappear, in contrast to classical segmentation which is more static.

MP I don’t think they rise and fall overnight. The reason there was an interval of ten years between my two books is that’s how long it can take for a microtrend to mature. Take “Internet Marrieds”, for example. When I wrote the first book, it was just the beginning of that microtrend. Ten years ago, people were reluctant to admit they met online. Today that stigma is largely gone. I thought that microtrend would result in a tremendous mixing of the classes - that people would broaden their social circle, since they could marry anyone from anywhere. But the opposite happened: people began to segment themselves. In “Microtrends Squared” I assess whether a trend turned out the way I expected. And oftentimes, unfortunately, the answer is no.

SS You make the case in your book that society today is at a crossroads, being pulled in opposite directions. How do you see that playing out over time?

MP In “Microtrends” I was hugely optimistic. We were moving from the Ford Economy - you can have any color you want as long as it’s black - to the Starbucks Economy - coffee any way you like it. I was hugely optimistic: Personalization would become the driving force of marketing and product manufacturing. But then fast forward to today and people at Starbucks just say, “Give me the regular.” People move in the other direction. They get comfortable with the choices they make. They stop experimenting. It’s the Paradox of Choice: the more choices I give you over time, the fewer choices you make. I always use the analogy of a restaurant that just serves chicken or fish. Then they decide to add steak and sushi. One group gravitates over to steak every day and one group gravitates over to sushi. Then the steak people say, “Sushi can kill you, there’s lots of bacteria”. And the sushi people say “Steak leads to heart disease”. Just like “Fox News” and “MSNBC,” right? People get stuck in their niches. We’re actually balkanizing society more than I expected, and that is having a more negative impact than I thought.

SS Have we passed the point of no return?

MP Not necessarily, but it takes leadership to really change course. There’s a schism between the Old Economy voters and the New Economy voters. Those who’ve benefited the most from the growth of the new economy have a different sense of values than those in the old economy. The Old Economy voters wound up with so small a share of the GDP relative to their numbers that they rebelled. Leadership came along that crystallized those sentiments. Will leadership come along and be able to crystallize the desire for society to operate on a more cooperative and collaborative basis? So far, no, right? So far, several presidencies have run on that basis, but they didn’t achieve it. Bush ran as a “uniter” versus a “divider” - Obama ran on “hope and change”. Trump didn’t run that way. He said, “I support the Old Economy voter”. But I don’t know that the result is any different than the end of the Bush or Obama administrations. They all wound up at the same divided place because a lot of these forces are pulling the two parties apart. It will take someone who really says it and means it to bring society together.

SS

In the face of these dueling forces, brands are being asked to consider what their purpose should be - whether they should take a stand on certain issues or not. How do marketers reconcile the conflicting values of their customers?

MP

Well, oftentimes, they don't do a very good job of it at all. I always remind people that for the Ford Motor Company the Number One product is the F-150. And the F-150 appeals to a very different customer than someone buying a sedan. Brands have different customer bases. But I do think that marketers have to think about what can unify us. If everyone picks a side, then society itself will just get more divided.

SS

But what about Nike, Ben and Jerry's, Patagonia - there's a long list of companies that have "picked a side". Is there an expectation now that brands show leadership on certain issues?

MP

Well, a lot of polls out there ask questions like, "Do you think the company you buy from should stand for social improvement and justice?". Now, who's going to say "No" to that question? Remember, at the end of the day, consumers are buying products that they expect to work. And what brands do in the political and social realm can't be used to cover up an inferior product. And so, I do think that people can get carried away with taking a position. Some brands like Nike will be more successful than others. During this pandemic, look at the companies who rose up in the minds of people: Amazon, Walmart, FedEx. People really appreciated the fact that they were able to come through for them under these adverse conditions. And people now have a better appreciation of technology companies. Technology didn't collapse just because everybody went online - quite the opposite, it worked, right? So people's trust in companies immeasurably improved.

SS

Just on the subject of this pandemic, it's clearly having a major impact on people's attitudes and spending. All kinds of speculation now on the possible aftermath effects. We know from past pandemics that they leave an indelible imprint. What microtrends are likely to emerge from this current health crisis?

MP

Well, I do think it'll be interesting to see what changes. A lot of customers fell out of their habits: they stopped going to the movie theater, going on a cruise, going on a plane. And that's going to be a very big job for marketing - winning

those customers back. And then there are new habits people formed, like ordering groceries online - and video conferencing. Looking at it generationally is fascinating. For the younger generation, this is the first actual crisis they've experienced. Their level of fear over this virus is just as high, if not higher, than older people, despite it being a disease that primarily affects older people.

SS

Don't you also have a whole generation coming along thinking they can't do as well as their parents.

MP

Well, actually, when you look at polling on that question, it's the older generation who think their kids won't do as well as they did. The younger generation have a very optimistic image of how they're going to do. And a lot of that is fueled by the fact that they see themselves living in a world of wondrous technology that didn't exist for older generations.

SS

On the subject of technology, my takeaway from your book is that you don't quite view it as a liberating force. And certainly today, there's loads of concern around the "tripoly" - Amazon, Google and Facebook - are they friend or foe? A lot of people are thinking about stricter regulation - curtailing their power. What's your perspective?

MP

Well, let me say that I'm a technology enthusiast - have been ever since building my first computer in a kit. And of course, I was Chief Strategy Officer at Microsoft. And so I'm a huge believer in its power for good. Having said that, there are certain aspects that really are going the wrong way. As a consumer, you have to be very careful as you trust technology more and more to do things for you. We're going to need some standards with proper third-party appeal processes. For example, about 40% of people think that liberals are being censored on the internet - and about 60% think that conservatives are being censored. Everybody thinks they're being censored.

SS

I'd like to talk about the state of the ad industry. The holding company model has been under siege in recent years. What are the major factors that have contributed to their decline?

MP

First, the traditional players who were formed many years ago were slow to understand the changes that were underway. And they also got too big - it became impossible for them to move easily and quickly. And then marketing

itself went from mass marketing to performance marketing where most of the money is now being spent online. When I ran the \$2 billion budget at Microsoft, just five or six years ago, the digital budget was an afterthought. Today, it has to be integrated into every aspect of a campaign. Performance marketing is an integral part - loyalty and CRM are integral parts. And they have to work together with offline marketing. So now, if you're going to do the best job that you can, you need to bring all of those things together.

SS

How is MDC different from the much larger traditional holding companies?

MP

I think MDC has always been less encumbered with traditional media. Being smaller, we're also more manageable. And I created Stagwell with the idea of having a digital-first holding company in the digital age. We also offer top-flight creativity that is almost impossible to find in the holding companies. And we've grown our digital offerings, both within MDC, and in Stagwell, representing the components of the modern marketing machine that you really need to serve clients. We also have an alternative model, built around global hubs, that will enable us to compete for larger and larger accounts against the bloated holding companies which have been slower to adapt to this disruption. As I often say, they were a disaster before the disaster. Although this disaster has helped them clean house faster than they might have otherwise. After all, I was at one of the big holding companies [WPP] before I went to Microsoft. My principal takeaway was they didn't manage high-level talent in the way you needed to. And they weren't making the transition to digital integration that is really the hallmark of modern marketing.

SS

Given the disarray the media world is in today - ad spending has dropped off a cliff, digital ad spending is almost entirely gobbled up by the triopoly - are we at an inflection point?

MP

I'm not as pessimistic as you are. Online spending is down single digits - offline down double digits. We'll see where it all ends up. You see a lot of movement to eCommerce and online transactions. And then you see the growth of addressable media. You really have a data-oriented marketing world now. Part of the issue in a market with so few suppliers is whether advertisers are getting enough benefit from digital targeting. It should be fundamentally cheaper than old-style marketing. I'm not sure that it is any cheaper.

SS

There's a lot of waste baked into programmatic advertising.

MP

I think the world's best digital ads have yet to be created. The formula for how you impact people in a non-interruptive way hasn't been fully cracked. A lot more of marketing online is going to be click-based, rather than provide the kind of brand storytelling that is still done best on TV. This year, we have the election. I always tell people, we used to spend a lot more money marketing a hamburger than we did on elections. But now that's reversed. There's probably \$5 billion being spent on this election. But the marketing world continues to get more complex. And I think the more complex it is, the more it requires experts to figure out the best ways to reach customers, and the best creative format to use. And that means it's really hard for in-house operations to do the same kinds of things that agencies do.

SS

To your point about complexity, are agencies today positioned to deliver the answers? You have the big consultancies moving onto their turf, leading with the promise of digital transformation. How do agencies respond to that threat?

MP

Look at Code and Theory, part of Stagwell. They have hundreds of digital designers and engineers. They can design it and they can build it. The same goes for Instrument at MDC. And YML is even more advanced in terms of technology. I think that agencies have to combine technology and creativity in effective ways. And we're lining up the resources to do that. I think if you're a consultancy, with a big digital transformation practice, you're trying to graft on creativity. So is it technology first - or creativity first? I do think it's got to be a very strong combination of both. Right now, the consultancies are over-weighted on digital transformation - and we're underweighted.

SS

Then to build "weight", as you put it, what will that take?

MP

You need people who are great in CRM, in understanding current customers, in performance marketing, in attracting new customers and engaging them online. And then people who know how to manage your offline media and position your brand. And then you have to bring them together with the creative people. Today, for example, 72andSunny and Instrument are walking into clients in lockstep.

SS

A keyword certainly is collaboration. But given the complexity, it also calls for a generation of T-shaped people who are multidisciplinary.

MP

I always say that the cost of data keeps dropping to zero, but the value of analysis keeps rising to infinity because we face more and more difficult problems. It takes people to set the strategy. And that's why some of our companies, like Anomaly, offer a very tight integration between strategy and execution.

SS

What I see today is that marketers have a diminished stature in most businesses. How can marketing reclaim its place at the strategy table? How does it help lead the way to a post-pandemic recovery?

MP

It's a good point, because I think for the last few years, as marketing has undergone transformation, the question has been, what kind of person has the right skills to be the CMO? Is it someone who's more data-oriented? Someone who's more of a professional manager? Someone who's creative? Is it someone who really understands brand positioning? And the truth is, you need to be a master of all of that. Marketing has to create opportunities that are not going to happen otherwise. No C-suite should be without the CMO in the room. Especially coming out of the pandemic, marketers have a bigger role than ever to play. You always have to get out ahead of the CEO - lay out the questions the company is facing, before the CEO does. And then marketing will be looked at as offering tremendous value.

SS

The answer clearly isn't just an ad anymore. There's also discussion that brands going forward have to be humanized. Is the role of the marketer to also serve as the conscience of organizations?

MP

I think that's one of their roles. However, I think that if they're the conscience of the company, as opposed to the central driver of revenue, the CFO will say, "God, I just can't wait to cut that unnecessary marketing budget we're wasting ..."

SS

They think that today!

MP

That, by and large, is true, but hopefully, we'll develop more tools that can trace ROI more effectively. There's never been more data to prove the effectiveness of marketing. So I'm generally optimistic about the future of modern marketing. You've seen offline media go down, news and print collapse, radio go down – but then you saw digital billboards go up, you saw search, social, online shopping, all those things, taking off, growing 20% plus a year. That is where marketing is, that's where it's going to grow. And that's where MDC will be playing.



Stephen Shaw is the chief strategy officer of Kenna, a marketing solutions provider specializing in customer experience management. He is also the host of a regular podcast called Customer First Thinking. Stephen can be reached via e-mail at sshaw@kenna.ca.