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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".



With so many brands slashing their marketing budgets these days, the global agency holding companies have been taking a financial beating. But the pandemic is not solely to blame: it just worsened a pre-existing condition.

The business woes of the agency holding companies initially began years ago when digital ads began to overtake TV as the preferred ad medium. Heavily reliant on traditional ad spending, agencies were slow to respond to the growing client demand for data-driven strategy and digital transformation. And then the big consulting companies swooped in with their change management playbooks, wooing away global clients by leveraging their C-suite relationships. Meanwhile, agencies were under pressure from clients to lower fees, forcing them to reduce billings and trim staff. They were caught in a deadly embrace: expected to deliver the same level of service at a lower cost, torpedoing their profit margins.

Today clients are more desperate than ever for design thinking, marketing innovation and technical wizardry. But where do they turn? The complexity of managing marketing communications across multiple touchpoints has become overwhelming: brands need help orchestrating the end-to-end customer experience. That calls for agencies to undergo a radical transformation of their own: fixing a broken business model by helping clients catch up to the growing expectations of their customers.

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 rescuing.

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 or "tentpole networks", making it easier for their leaders to collaborate and pitch new business together. The goal: offer the right balance of strategic thinking, versatility and creativity.

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 well known 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. So I started the interview by quizzing him on his thesis.

MP

**Mark Penn:** The basic notion of a microtrend was always kind of the small forces that are in many ways, right in front of yourself that you maybe don't see that are developing into, you know, super important trends. And so, we classically used to define a macrotrend as a percent or more, that it had to be growing, right, that it had to be a little bit counterintuitive. Like, I don't do a microtrend, like people are concerned about the environment. Then we also look for every trend, you know, what we call Newton's Law of Trends. For every trend, there is a countertrend, just not necessarily opposite, and equal will be opposite, but not necessarily equal, right. And so you always have to look at both ends of the spectrum, if you're looking at...you know, that everybody is getting a smartphone, aha, so that's the trend, that's maybe a megatrend, right? But a microtrend is people buying more flip phones, for example. So there's a group of people who say, “You know, I can't stand this technology, I don't like it. It's too complicated. It's not for me.” And then it turns out that you have this...you might call it a niche, but it's a growing segment of people who wanna be, you know, against technology. Who very much wanna have a different technological experience, right, and so they bring back the flip phone, right? So, that's kind of... if you look at this, you really kind of expect to see growth, you expect it to be small but punch over its weight, right, in order to be something of significance. And then it could be something, you know, significant, even if it doesn't get to be a megatrend, like buying a smartphone.

SS

**Stephen Shaw (SS):** How do these niches make themselves apparent to you? Are you gleaning this from survey work that's been done? Is it the power of observation, simply seeing these forces at work and you're identifying

these trends, and the quantification of the size of the segment you referenced and whether it's growing or not? How did these evolve in your work?

MP

Well, I think part of the book is also to teach people to be what we call a microtrender. Meaning, how do you identify some of those trends you know, in front of you that could be significant. Look, the original book was the number one book in advertising for quite some time. So there was a real interest in advertisers and finding groups because I had, you know, been at the root of creating “soccer moms.” It was really the soccer mom creation that, okay, here's something that's happening, but it's not really crystallized. And so part of what you do with finding a microtrend first, you kind of put forward and what you do in all research is you put forward a hypothesis, right? And then you look at the studies around the hypothesis, maybe you do some yourself and you say, ah, the hypothesis is true or false. Like I had a hypothesis that parents were more at work so that they were kind of stricter with their kids, right. And that hypothesis turned out to be false - it was the other way around. Because they were away from work they were softer, right, because they felt bad about being away all that time. And so the actual impact was the opposite of what I expected. And so you do...you know, it takes a leap of creativity, combined with data, combined with validating. But the important part of a microtrend is that understanding the implications of the trend, right across all potential areas. So you take something like single with pet. One of my favorites, and obviously one of the last few years had a huge implication for marketing. The pets were generally bought by families, by kids who demanded them, right. And so they lived with three or two people, often two adults and three kids, and so they got scraps, right? So now instead, a lot of people who... particularly people who said, you know, “I'm not gonna have a child for another 10 years but my apartment is a little lonely,” went out to get a pet, right. And so a huge number of people now bought - and 50% of millennials bought - pets of one kind or another during this phase of their life. But those pets are the only person, right, in their household and so they kind of love attention, food, etc., that they get is just enormous, right. And then if you're building housing, and you're building housing in urban areas, cities, and you thought you were gonna have a no pet policy, well, you've gotta change the policy. And then if you're selling dog food, you realize that that kind of customer is gonna spend more

money and demand things like GMO-free pet food that some household that's serving them scraps is not gonna demand. So you've gotta find a trend that everybody isn't at. Because like, okay, everybody is at the trend of, you know... we had earlier in the first "Microtrends" 10 years ago, I had pet parents. Those were older couples after the kids had left buying pets because they didn't like the house being so quiet and taking on that responsibility. And so they also had the attribute of enormous disposable income, because they had been paying for all these kids and now they're out of the house. And so that was truly the pampered cat or pooch, right. So, in any event, there's a lot of implications from it. And a lot of the other microtrends too are serious, they'll have like, you know, they're here, you know, kids on meds, and that will have enormous policy implications as well. So they range the gamut that way. But it is an exercise where we wanna teach you to be a microtrender. And we want you to understand the significance of things that seem trivial and insignificant, and yet they can have enormous impacts, either for your clients if you're in marketing, or for what has to be done in terms of policy and how society might change, right. (10.33)

SS

How it might function, yeah, there's a big sociological set of implications to these niches. And by their nature, they're somewhat ephemeral, if I may say that. That is, as society evolves, new niches spring into being or evolve out of potentially other segments. So it's a very dynamic way to look at an evolving market as opposed to traditional classical marketing which looks at things in a very static way. Is that fair to say, to make that distinction?

MP

I don't think they rise and fall overnight. The reason that there were 10 years between the two books is it really takes about 10 years to kind of have a new slate. And even that I revisited maybe four or five, you know, something like "Internet Marrieds", right. So, "Internet Marrieds", when I wrote the first book, that was just the beginning of that trend, it was a microtrend. And of course, no one would admit. Like where did you meet your significant other? They didn't say, "Oh, on the internet at so and so site," nobody said that they made up something else, right. But then you fast forward 10 years, and the stigma is largely gone, so they say, "Oh, yeah, we, of course, met on, you know x.com, and they're quite open about

it. But at that time, if I go back 10 years, I thought that microtrend would result in a tremendous mixing of the classes, that now people could broaden their social sets. They wouldn't just kind of marry people at work, or in a small close set or a friend of a friend, that now they could marry anyone from anywhere. And that would create so much of social mixing and of course, as internet marriage got so big, the opposite really happened. The people said, "Oh, well, I can now be in the Ivy League group". So they actually segmented themselves. And so a lot of the things in "Microtrends Squared," I'm able to look at and say "Did it turn out the way I was hoping?" And oftentimes, unfortunately, the answer is no.

SS

And the other thing that struck me, and it's so true, is that you make the case that society today is at this crossroads, being pulled in opposite directions. For every trend, there's a countervailing force. And you, I think, used the term chaos, but you know, discord, certainly in society. You know, given the current riven state of society, how do you see this playing out over time? Is there a likelihood, do things simply get worse? Do you see a return to a time where there is some at least level of unifying social consensus? Are we passed the point of no return around all of this? What are your thoughts on this? Certainly, it has political implications.

MP

Again, in "Microtrends" one, I was hugely optimistic, right, that basically, what was happening is we were moving from what I called the Ford Economy. You know, you can have any color of product you wanted as long as it was black, right to the Starbucks economy, right. Which was 55 different varieties of something that is black coffee, right? And so the concept was that personalization now became the driving force of marketing and product manufacturing. You know, the Apple iPod was the first time every person could easily have a custom track, right? And a lot of the work then, if you look at the iPad, you did the work, by and large. Then, at Starbucks, the barista did the work in order to customize it you know, to what you want. So then we now are in the Uber economy, right, which is an infinite number of choices, right? The product can be made exactly to you. Uber will take you from any point to any point instantly. So in effect, they're creating an infinite number of variations in the product.

And so I was hugely optimistic about this. So then I fast forward and then it turns out that after a while, people go to Starbucks, and they say, “Just give me the regular.” So, in fact, people then just like I suggested with internet marriage, they then move the other direction, they get comfortable in the choices that they like, and they don’t experiment much anymore. And so the paradox of choice is, the more choices I give you over time, the fewer choices you make, you know. I always use this analogy of a restaurant that just serves chicken or fish, right, you don’t care all that much, chicken, fish, chicken, fish, right. Now I add steak and sushi, right, and then some group gravitates over to steak every day and some group gravitates over to sushi every day, and then they get really dug-in in their choices, right. And then you know what happens next, then the steak people say, “You know, that sushi could kill you there’s lots of bacteria” right? And the sushi people start to say that “steak is just heart disease”, right? And then you think, oh, “Fox News” and “MSNBC,” right? So then the world of choice here has then...people then have found their niches, then they get stuck in their niches. And so rather than bringing society together, right, the better the economy, the better that we can niche things in terms of whether it’s politics or socially or, you know, products. We’re actually balkanizing society more than I expected, and that is having some more negative impact than maybe I thought was gonna be the case 10 years ago.

SS

Are we passed the point of no return around that? Do we simply become a society that’s increasingly more fragmented, increasingly more divided, increasingly balkanized to use your term? (16.10)

MP

Well, you know, not necessarily, but it takes leadership to really change courses like that. If you look at it, realistically, there is a schism between two rather big groups. What I call the old economy voters and the Silicon Valley or the new economy voters, right. And so those who were lifted by the growth of the new economy fundamentally have a different sense of values, of lifestyle, attitudes towards international affairs, right, then those in the old economy. And so the theory was the old economy voters were shrinking. And what happened is they wound up with so small a share of the GDP relative to their

numbers, that they rebelled. And said, “You know, what, we got as many people here as this new economy voters, and it’s a democracy, and we’re gonna reassert our rights here, right. And so, we’re gonna reassert what we...you know, and come down on the trade that’s costing us jobs.” Now, leadership evolved that then crystallized a lot of those sentiments that’s been sitting there. Will leadership come along, and really 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, right, by the end of their presidency, Bush ran as a uniter versus a divider, Obama ran hope and change. Trump didn’t run that way. He ran basically, “I’m for the old economy voter here”, right, “and I’m gonna push back”. So that was kind of a different way of running. But I don’t know that the result is any different than the end of the Bush administration, or the end of the Obama administration, right. They all wound up at the same kind of more divided place because a lot of these forces then are pulling, you know, the two parties apart. And it will take someone who really says it and means it to bring society together. And I also think it’s important for products and marketers to think more about that.

SS

I was gonna ask you that question because, you know, you certainly see today more than ever brands thinking about what their purpose should be, thinking about should they take a stand on certain issues or not. There’s always a risk, of course, associated with that in alienating a certain part of your customer population, which holds this set of values versus another set of values. How do marketers reconcile that when they’re trying to appeal, in fact, to the values of their customers?

MP

Well, I mean, oftentimes, they don’t do a very good job of it at all. And they help promote in the name of trying to show more corporate awareness and purpose, they wind up promoting more division, right. And, you know, look, some customer bases, you look at your customer base, and you can safely take, you know, a particular position, and it will reinforce it, right? Or you look at a customer...you know, I always remind people, you know, whatever Ford Motor Company is gonna do their number one product is the F-150. And the F-150 is a very different customer than

someone who's gonna be buying, you know, a suburban, you know, sedan kind of customer. And so people have different customer bases. But I do think that the marketers have to think more than what seems like an easy win, and also at the end of the day fracture their consumer base. And I think that that's more of a danger and that they have to pick carefully those things that can unify us. If everyone picks a side, you know, based on their customer base and which side is right, then society itself will just get more divided.

SS

It's an interesting challenge for marketers, for sure. You know, I think Nike, Ben and Jerry's, Patagonia, there's a long list of companies that have lined up on one side and basically are making statements to society. Nike probably being the most outstanding example of branding courage, if I may call it that, by making these quite bold stands and really setting an example. Is there an expectation now that people have of brands, that they look to them for leadership on some of these issues, or not?

MP

Well, generally, there are a lot of polls out there, they ask questions like, do you think your company that you buy things from should, you know stand for, you know, social improvement and justice, right? Now, who's gonna say no to that question? Again, you can be very successful at doing that, or you can fracture your consumer base if you have, you know, a different kind of product in a different market. And yeah, remember, at the end of the day, the consumers are buying products that they expect to work. And what you do in the political and social realm can't be used to cover up an inferior product, right? (21.30)

SS

Of course.

MP

And so, I do think that people can get carried away with the trend of social marketing. Some will be more successful than others. We know that, you know, like, one of the razor companies you know, tried something that backfired, essentially, right. So you can see examples of success in Nike, you can see examples where it backfires. But remember the essence of what people rely upon is trust... And I think it's been very interesting during the pandemic. You look at the companies who rose up in the minds of people, they were the Amazons, the Walmart's, the FedEx's. They were the people who proved, "You know what, we are in a huge crisis and these companies

are delivering for me." And the fact that they were able to deliver for them into these adverse conditions, right, the grocery stores, right, people really appreciated that.

SS

It's true.

MP

And they really, frankly...and they have a better view of healthcare. And we're, you know, on a technology platform, now they have a stronger view of technology companies. Technology didn't roll over and collapse just because everybody now went on it, quite the opposite, it worked, right? And so people's trust in companies to deliver for them immeasurably improved through this process. And I don't think companies should lose sight of how important that is.

SS

Of course, and just on the subject of a pandemic, I mean, clearly, it's having a major impact on people's attitudes and their spending, etc. All kinds of speculation now, in terms of the aftermath, and what the likely permanent effects of this pandemic will be on people's attitudes. Typically, we know, in past pandemics and major crises, there's always been an indelible imprint left by those events. So do you see "Microtrends Squared (2), coming out very soon, in terms of the microtrends that will emerge from this current health crisis?

MP

Well, I do think it'll be interesting to see, you know, how things kind of come out of the crisis, and what changes. I generally explain that there are some companies now getting more business than they ever had. A lot of household products, milk, and orange juice, you know, things that are associated with, you know, improving your immune system, right. And there's a lot of companies that just went down with the economy and some things, again, kind of stopped doing to the same extent that they were doing and dressing up and clothes, and all of those things. And then there are things that got associated directly with the pandemic, you know, going to the movie theaters, going on a cruise, going on a plane, right. And the solution for each of these, like, if I'm orange juice, I wanna keep my new customers and say it was good in the pandemic. I've gotta continue to hold on to them after. And then for a lot of customers who got out of the habits that they used when they saw other people and traveled with other people, I've gotta bring all those back, right,

and remember how good they were and how they make people feel. And I think that's gonna be a very big job for marketing and for a lot of companies to kind of look at. You know, there are a few new tech things, like you know, ordering groceries, things that people didn't...that actually were there and worked but people didn't use because they didn't believe they worked. I think ordering groceries on apps like Instacart, it's really kind of fascinating because they didn't...they didn't change for it. And Zoom was also here, but nobody used it, right? These things were already developed, but they couldn't find the marketplaces. And there are some of the examples of companies that will have a much-strengthened consumer base. And then what is it gonna take to get people back on airplanes, right? I think we're beginning to see consumers go back on airplanes to some extent, to see family, to take a vacation they just can't wait on. And I think right now you're seeing business travel close to zero, right. And almost no business travel coming up. So that's gonna be interesting to see what happens to business travel, you know, post-pandemic. I always use as much video conferencing as possible, as much as anybody will accept it. Well, it's great as people will accept more of it, you know, than they ever did in the past. So, I think there's a lot that's coming out. And then I also have to say that looking at it by the generations or the personality types, is really kind of fascinating. The younger generation, relatively speaking, had no war, no draft, no...you know, the 2009 financial crisis, but most of them really didn't understand it at the age that they were at. And so this, in many ways, was the first actual crisis that they were part of. 9/11 was too early for them also, they weren't here for that. And when you look at it, the levels of fear among younger people are as high, if not higher than the levels of fear among older people, despite it being a disease that primarily affects older people.

SS

Well, it's an interesting observation. I mean, you have a whole generation that's coming along, thinking now that they can't do as well as their parents. And it must have an impact on the way they spend, they think about saving, they think about everything really, in many respects, don't they?

MP

Well, actually, when you look at the cross tabs on polling on that question, it is the older generation that thinks their kids cannot do as well as they did. When you actually poll the younger generation, they say, "Of course, I'm gonna do better than those old fogies." And they have a very positive image of how they are going to do. And a lot of that is fueled by the fact that they see themselves living in a world of technology wonder that didn't exist for their parents and the older generation.

SS

Right. And certainly, there's the grand promise of the Fourth Industrial Revolution changing everything in a number of years. I do wanna move on to this subject of technology, because it's such a driver, clearly, as we've been talking about through this whole conversation. And, you know, I don't wanna overemphasize this, you know, my takeaway from your book is that you don't quite view it as a liberating force. And certainly today, there's lots of concern around the triopoly - are they friend or foe? What's your perspective on this, and particularly social media, given the things we were talking about earlier, these countervailing forces, amplified, obviously, by social media? What's your prescription for moving forward on this? A lot of people sort of are thinking in the sense of stricter regulation, you know, other people thinking that these big technology companies should be broken up? What's your feeling about where we are today with technology, and particularly these three big companies, Amazon, obviously, Google, Apple, and so on?

MP

Well, let me say that I'm a particular technology enthusiast, I would say, have been ever since building my first computer in a kit. And of course, obviously, was Chief Strategy Officer at Microsoft. So I got to really see, you know, where technology was going and how it's going. And, so I'm a huge believer in how it will transform, like, for good. Having said that, there are certain aspects here that really are going the wrong way, and that we're gonna have to think about. Just as you know, when I was working for the President, we were looking at Hollywood, and he said, "Look, we need to come to some agreement here with Hollywood," because there were no rating systems and you didn't know what content was appropriate for what kinds of people. And now you're going into whole areas of fact-checking and censorship and violence, you

know, online and the tools being used to organize things. And so we're gonna need really some standards. And I think classically, the movie industry at that time, you know, the ratings avoided regulation. I think the tech companies really should come up with some uniform standards with proper third-party appeals processes here because right now if I do a poll, I think it's about 40% of people think that liberals are being censored on the internet. And about 60% think that conservatives are being censored. But my point is that everybody thinks they are being censored, okay. And so you can't have in the long run a system that is the most open system ever created and have everyone believe that there's, you know, this kind of censorship going on, without I think setting some industry-related standards. And I think the fact that each company tries to do it shows you how we need to have something where it's more uniform, and where people have real expectations of what can and cannot be published. And a real right to appeal to something other than a bot. You know, and these bots are...you know, as a hobby, I have a political game and I advertised the game. And all the time now it's flagged as political advertising. And I say it's not political advertising, it's you play a game about politics, but I get nowhere with the bots, right. It's because the bots can't...so the fact that you have these authorities that can't distinguish, right, that they can maybe hit the right thing, 80% of the time, and 20% will automatically censor things that probably shouldn't be censored or regulated. It's a problem you know, that has to be dealt with. And then something I hit on in "Microtrends" a lot is what I call relationships with a bot, right? So, you have to be very careful, as you trust technology more and more to do things for you. And to do things for you, you know, with a bot that answers and creates a relationship with you. And that is deliberately designed right to have your trust and confidence. And who are they working for? How do they pick their algorithms? What's their real interest? I used to use the example of, you know, you ask the bot, you know, what's the weather like before you go to work. And it says, you know, the weather's it's gonna rain, right? And then somebody at the company with the bot, you know, realizes that we're helping all these people, and we're not getting any money for it. So, they make an agreement with the umbrella company. And so now they

say, "How's the weather going?" So, you know, it's gonna rain today and by the way, you can buy an umbrella on your way to work down the block, right? And they get the umbrella, perfectly fine, no problem. Then somebody says, you know, "Earnings are really weak. Can you get some more money out of this umbrella thing?" So then they go back to their algorithm, they say, "You know, right now we have that tune to tell people it's gonna rain when it's 60% gonna rain, let's just move it to 40%", right. And, we'll get people more worried about rain, and they'll buy more umbrellas, right. And you didn't know that what you thought was working for you is actually there to sell your umbrellas, and you don't see how the algorithms are working and what they're tuned for, and how companies are responding to their financial requirements. So all of that is a hidden process that we're gonna need I think real disclosure on. (33.20)

SS

Yeah, transparency totally, yeah. So I'm gonna take our conversation a different direction because clearly given your position as head of MDC, I wanna talk in the remainder of our time here about the state of the ad industry. I know that you have very strong feelings, you know, about the industry, and obviously the role of the holding company, which as we all know, that model has been under siege in recent years, declining valuations, revenues declining, etc. Just a synopsis of what you think the major factors have been that have contributed to the decline of these holding companies, and how do you see the current model being reinvented as we go forward here?

MP

Well, I think a lot of the issues are the classic issues that you see in any industry, where there's innovation and disruption, right? First, you had big players who were formed many years ago, who then were slow to understand the changes that were underway. And it's typically very hard because you've got all of these investments, and they're all invested in what the last technology was and is and it continues to work on that. And they also got, you know, too big, right, and so they got so big that then in order to adapt to the new technology, it required things that would be virtually impossible to do easily and quickly. And so, marketing itself, I think, you know, went from kind of this mass marketing, you know, primarily a brand, right now to a much more performance-oriented

mix of marketing. Digitally fueled, we're flipping the switch over where most money is spent online. When I ran the \$2 billion budget at Microsoft, which wasn't that long ago, I mean, five or six years ago, you know, the digital budget would have been almost a small portion or an afterthought of the principal campaign. Today, it has to be the campaign and integrated in every aspect of it. And performance marketing is an integral part, loyalty and CRM is an integral part. And the three, you know, offline marketing has to work together. So, as I always easily express it, "I say, today, you have to get the right ad to the right person at the right time," right. And this is after... procurement spent a long-time moving creativity apart from media, right, and apart from research sciences, and data and information. And now if you're gonna do the best job that you can, you're gonna have to bring those things together, right. And so, at MDC, right, I think MDC was less encumbered with what I call fully traditional media. Obviously, its size and scope were much smaller and more manageable. And I created Stagwell, you know, with the idea of having a digital-first holding company in the digital age. And you know, we're talking about a merger, but even without the merger, we're still working cooperatively together. And I'm, of course, you know, CEO or Managing Partner of both. And together, we have kind of top-flight creativity, that is almost impossible to find in the holding companies working in an entrepreneurial basis, right, because of our size and the incentives that we've put in place. And we have growing digital offerings, both within MDC, and in Stagwell, that together, I think, are really the components of the modern marketing machine that you really need to put together today to serve as clients. And I think as we build this, and we grow this, we will have an alternative model, right, built on global hubs that will enable us to compete for larger and larger accounts, against the bloated holding companies, that almost by necessity, are just slower and more difficult to adapt to this disruption. As I often say, they were a disaster before the disaster, right. And, in some ways, the disaster may have helped them, you know, clean house faster than they're going. But I was obviously at one of the big holding companies before I went to Microsoft. And, you know, my principal observations were they didn't manage talent, and value, you know, high-level talent in the way that you

needed to. And they weren't making the transition over to digital and technology and its integration, that are really the hallmark of modern marketing. (38.01)

SS

So part of the challenge, I would think, is given the disarray the media world is in today - ad spending dropping off the cliff, you referenced digital ad spending, but that's gobbled up by just three companies now. Are we...just with respect to advertising, which is such an important revenue source for most agencies still today - are we at this inflection point now? What is...just speculate for me, if you don't mind, what the ad world looks like three years from now?

MP

Well, I'm not as pessimistic about budgets as you are. I mean, I think at the end of the day, they're down single, you know, digits. I think that they're down double digits, I think we'll see where it ends up, on offline media and kind of traditional stuff. I think you see a lot of growth, a lot of movement to eCommerce and online transactions, and online platforms. And then I think you see kind of the growth of addressable media across and it gets...you know when television becomes more and more addressable, and then all of the other ways of viewing content are addressable. You really have a data-oriented marketing world to a much greater extent. I mean, you used to, you know, you have to buy a spot or a show with the hopes of hitting certain types of people. You know, to me, part of the issue is with a market with so few actual suppliers, are advertisers getting enough of the benefit of the new world of technological targeting, that should be fundamentally cheaper than old-style marketing. I'm not sure that it's any cheaper. I think it may even be as if not more expensive to reach people, even though the cost of reaching them should have dramatic ...

SS

There's a lot of waste baked into the process right now, right? Which is, you know, been the complaint at the big packaged goods companies ...the dollar isn't working as hard for them as it could be for sure.

MP

But I think if you think ahead, I do think mass events and tentpoles continue to be important. I think the world's best digital ads have yet to be invented, or created. I think we're some of the world's best, you know, on-air ads. I think you'll find at the MDC agencies, I think that the



craft of how you really impact people who are, you know, in a non-interruptive basis, unless you're just, you know, running it on pre-roll, I think that that still hasn't been fully cracked. So that a lot more of the marketing online is gonna be more performance, or, basically click-based, rather than being able to provide the kind of brand image and storytelling that you really still can do best on TV. So, I think that you're seeing the digital media expand, though, we're looking for recovery of the Olympics. I mean, this year, we have the election. I always tell people, we used to spend a lot more money on marketing a single hamburger than we did on the elections but now that's been reversed. And it's probably \$5 billion being spent in the election. But you know, that really goes I think, to firms that are in the election space. I think when you get the recovery of professional sports and the Olympics, I think you'll see some significant uptick. So I think that the marketing world continues to become more complex. And I think the more complex it is, the more it requires experts who sort it out and figure out the best ways to reach customers, and the best format and creative format to do them. So I'm not as pessimistic about how modern agencies can advance to service customers. I think that marketing itself becomes just far more complex. And that means that it's really hard for in-house operations, you know, to really do the same kinds of things that agencies do because I think the talent cap. (42.11)

SS

Most businesses are faced with...and really, I think, understood dramatically with this pandemic, the need for digital transformation. And many companies are way behind in terms of their customer expectations versus what they can deliver. There's this experience gap, I call it. However, to your point about complexity, are agencies today positioned to deliver the answers? I mean, you have the big consultancies moving into their turf over the last number of years, in fact, buying up creative services, as we know, taking advantage of their C suite relationships, leading with the concept often of transformation. How do agencies respond to that...I'm gonna express it as a threat. How do agencies respond in kind? Can they service the C-suite as effectively as credibly as the big consultancies? What's the requirement for change here for agencies to compete effectively?

MP

Well, I think what we're trying to do when you look at it, and you look across Stagwell with Code and Theory, the kind of company that has, you know, hundreds of designers and hundreds of engineers, right. So they can design it, and they can build it, and you can rely upon it. And the same thing over at MDC with Instrument, same kind of talent that you have, and YAML even more advanced in terms of technology. We have a group of about 100 engineers generally, to build and we're soon releasing, you know, tech SaaS products for clients on our own. I think that agencies have to combine either technology and creativity, right, in effective ways. And we're lining up the resources to do that. I think if you're sitting there with a consultancy, and you've got a big digital transformation practice, you're trying to graft some creativity on it. And I think that certainly, you know, has sold to some customers. But I kind of think that if you're... you know, is it digital or technology first, or is it creativity first? I do think it's gotta be a very strong combination of both of those. And the consultancies, at the end of the day, are overweighted on digital transformation. And we're underweighted on that and I think we continue to build up our way.

SS

Then to build up weight as you put it, what will that require? What's required to build up the weight as you describe it?

MP

I think, again, you look at the resources we have with the Harris Poll and NRG, you know, millions of consumer interviews being done. And those consumer interviews then go into a large data pool along with behavioral and other kinds of data. So that these kinds of micro-trended niches that really make a big difference in terms of marketing can be found on the base. So you need a data platform on that. And we have, you know, uniquely the millions of Harris interviews as inputs to that platform, you need a technology stack on top of that. You need people who are great in the three disciplines, I think, of CRM and understanding current customers, performance marketing, and understanding future customers and how you bring them in online. And then how you manage your offline media and position your brand. And I think we're putting together really and have today those services that we continue to build together in terms of a more seamless

application. And then you really have to bring them together with the creative agencies. When I was at...and you've been here for some time at MDC, everybody was on their own. And that's not the case anymore. Today 72 and Sunny and Instrument are gonna be, you know, lockstep going to clients and being able to offer offline online creativity, digital construction, right, all together once in ways that was never the case before.

SS

I mean, a keyword certainly will be agility and collaboration, for sure. But it also calls for...given the complexity, you've been describing, the rise of a generation really of T-shaped people. People who are comfortable and conversant with the technologies, but have the sort of a social intuition that a Mark Penn has to bring to observations about customer behavior, and market behavior for that matter.

MP

And that's interesting in the sense that strategy, and kind of human analysis, people thought, "Well, we're just gonna have the consumers do everything, there's a box over here." I always say that the cost of data and the value of data keeps dropping to zero because there's just more and more of it. And the value of analysis keeps rising to infinity because you face more and more difficult problems. And it turns out it takes people at the end of the day to really set the framework, right, of the strategy. And that's why I think some of our companies like Anomaly is a very tight integration, right, between strategy and execution. And that is really one use case and some of the other agencies are then I think, are following suit to expand that combination.

SS

It's interesting because there's been so much conversation about the future of marketing. And, you know, I always make the point that the two most important skill sets that a true marketer can have is empathy and curiosity. And those two in combination allow us to bring unique value to companies. But what I also see is that marketers have diminished in stature in most businesses. They've been relegated to being the pretty picture department. How can marketing - not speaking specifically now about agencies - but marketing itself, we've seen the CMO title disappearing, being eliminated by certain brands, being replaced by Chief Growth Officer, in some cases Chief

Experience Officer. How does marketing reclaim its place at the strategy table in businesses today? How do they bring...and particularly coming out of this pandemic, emerging from the crater that's been created, the economic crater that's been created. How does marketing help lead the way to recovery? And I would argue renewal in many respects. Reinvention, if I may use that term again, how does marketing take a leadership role going forward?

MP

It's a good point, because I think for the last few years, as marketing has undergone transformation, so then the question has been, what kind of person has the right skills to be CMO, right? Is it someone who's more data-oriented? Is it someone who's more a professional manager? Is it someone who's steeped in the creative community? Is it someone who really understands brand positioning? And the truth is, you almost need to have be a chef of, you know, all these trades, right. And you really need to understand pretty well, each one of those to be a successful CMO. So, the nature of the job became more complex and so I think there was their confusion. I think it'll settle down over time here, because the big wave of disruption is over, and people are now figuring out, how do you put the pieces together? And I think, look, you know, marketers and marketing have to answer fundamental business challenges, right? It has to create opportunities that are not gonna happen by themselves without - whether or not it's finding the soccer mom market, or whether it's finding kind of a new generation of professionals out there. It has to in understandable terms, create and move forward opportunities for companies that meet their fundamental challenges. And, you know, there should be no C-suite in which the CMO or the CMO title equivalent is not part of it. Because especially coming out of the pandemic, the consumers are so now, I think, volatile, and able to kind of permanently switch off products they used to use, or permanently adopt products that they've just started to adopt or pull back and go back to their old habits. That marketers have a bigger role than ever to play. And I think they have to get out there, you always have to get out ahead of the CEO, and lay out the questions that the company is facing, right almost before the CEO does. And then I think you're really looked to as offering tremendous value. (50.55)

SS

Well, the answer clearly isn't just an ad anymore. And there's also discussion that, you know, brands going forward have to be...and I'm gonna use this term loosely, humanized. Is the role of the marketer to be also the conscience of organizations? To say, guys, we need to do the right thing by the customer, which is the concept of customer-first thinking. We need to do the right thing by society, which is this whole question of conscious capitalism. We've heard lots of debate and conversation about that over the last couple of years in fact. Is marketers' role here to really be the conscience of businesses?

MP

Well, I think that's one of their roles. I also think the CCO has a very large role to play in that I think to the extent the structure, you know. The CMO was never really trained, or typically, in all of the kind of complex policy issues, right, that the CCO generally was pretty comfortable with. And so those efforts and particularly around sustainability generally were driven. There's some merger, there's some argument that sometimes those two positions in the right company can be one, whether they have to be more closely knit. But you know, I think that if they're the conscience of the company, as opposed to the central driver of revenue, and sales and success for everybody, right. Is your CFO looking at you and saying, "God, I just can't wait to cut that unnecessary budget that we're just wasting ..."

SS

They still think that today.

MP

... or maintain, it's like, yeah, go ahead yeah, cut that budget, and you'll see sales fall in half. And you'll see that the new product never really gets launched and that you're not making progress".

SS

Isn't that interesting? But isn't that the conundrum still all these years and I've been in marketing a long time, as you can tell, is that they could never really demonstrate the return on investment to the CFO. And hence that budget stays at 12% of revenues and is cut in bad times. That's never changed, even today?

MP

I would say that...that's by and large, true, but hopefully we'll develop I think, more tools that can trace ROI more effectively. Because now we can trace the whole loop from search, to action, to purchase. I think there's never been more data to prove the effectiveness of marketing than during the pandemic, when people were, by and large, not going anywhere, shopping online, and you

could follow the complete track of where they went. So I'm generally optimistic about the future of modern marketing. Again, more companies will become more global. And they will extend I think some of the marketing techniques that maybe are pioneered in a lot of the developed and tech-heavy countries, and then kind of spread those, I think increasingly throughout the world. There is transformation, but you know, as I always show in charts, you saw offline media going down, you saw news and print, you know, collapsing, you saw radio going down, you saw digital billboards going up, you saw search, social, online shopping, all of those things taking off growing 20% plus a year. That is where marketing is, that's where it's gonna grow. And that's where I think, you know, MDC is being brought along to play heavily in that space, as marketing develops.

SS

Mark, this hour has absolutely flown by, I could talk to you for two more hours. It has been an absolutely fascinating conversation with you. And I, again, want to express my deep appreciation for the time you've taken here today. So thank you very much.

MP

Thank you, it was terrific.

That concludes our interview with Mark Penn.

As we learned, for marketers to reclaim their rightful place at the strategy table, they need to get out ahead of the CEO, spotting microtrends that might otherwise go unnoticed. But that means paying attention to smaller segments of the population who punch above their weight - along with anticipating the domino effect on market demand. Agencies also have a bigger role to play, serving as subject matter experts with the creative intuition to be a matchmaker. Out of the ashes of this pandemic will emerge a new form of marketing less reliant on ads as a tactical crutch.



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