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Resilience, recovery, acceleration

By Sir Martin Sorrell

You have to find the silver linings

The nature of our client base contributed significantly to our resilience during the pandemic. Technology and healthcare together account for more than half of our client spend and those were sectors that didn't stop their marketing and in some cases reinforced it. Our people played a huge part; they are entrepreneurial and can turn on a sixpence. And our values of 'speed, quality, value' or 'faster, better, cheaper' were paramount.

During lockdown, clients were more available than ever before and wanted to talk about the challenges they faced, at a time when our competitors were often hiding from view.

Then we found three revenue streams that simply exploded. Animation – as any of the Hollywood studios will attest – went vertical, for the simple reason that you don't need people. Robotics was another. When we acquired Caramel Pictures, we'd laughed that we'd bought more robots than people, and now that proved prophetic.

The third area was the conversion of live events to online events, which enabled us to deliver some very effective virtual experiences for major clients.

Digital adoption has accelerated

On the whole, covid-19 didn't create new trends; it accelerated existing ones. Digital adoption was stepped up by consumers. During the early days of the pandemic some 30% of US households went online for groceries for the first time; online education took off; and streaming went through the roof. Disney+ was targeting 70-80 million consumers by 2024, but it rapidly went to 100 million (and forecasts 240 million for 2024) and found itself competing with Netflix.

Alan Jope tells the story that when he was running Unilever in China during the SARS outbreak, there was this massive surge among Chinese online; in 2020 we saw a similarity when Nike gave away their fitness app to the Chinese consumer for free – it sparked a significant uptick in online activity.

The tech giants, whether Google, Facebook and Amazon, or Alibaba, Tencent and Tik-Tok are all set to emerge from the pandemic stronger than ever. Digital adoption has also been stepped up at enterprise level. Before the pandemic, fmcg companies were jogging along at 2% or 3% or 4% each year with no inflation, zero pricing power and EPS gains squeezed from focus on costs and share buybacks.

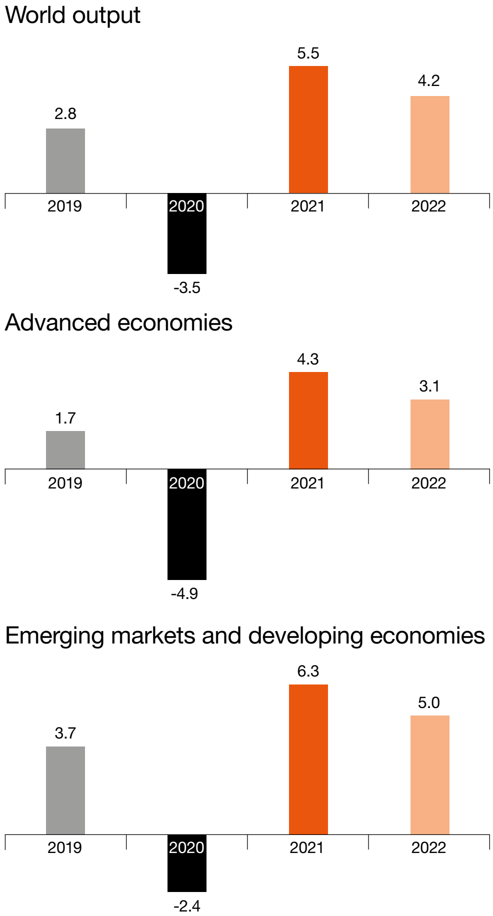
Covid-19 blew a hole in that, and as a result the change agents in these companies have been given much more oxygen. The package goods companies started deploying more money to digital because that's where the harder sell can be made at times like these. And as one ex-CMO told me: "If Amazon isn't copying your business model, you don't have a good one." ▶

Resilience, recovery, acceleration continued

Pandemic patterns

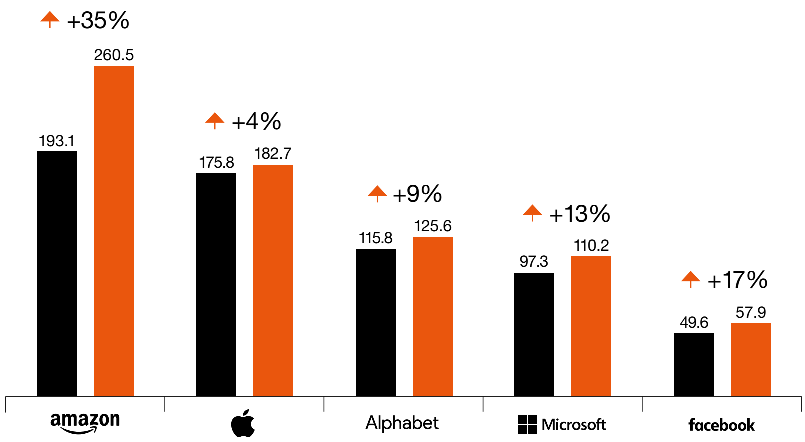
Vertical	Shape
Technology & telecom	V
Data & analytics	V
Ecommerce	V
FMGC/CPG	V/U
SMB/Agencies	U/L
Travel & leisure	L
Financial services	V
Retail online	V
Retail offline	L
Auto	U/W
Media & entertainment	V/U
Pharma/healthcare	V
Telemedicine	V
Fashion & luxury	U

World economic outlook growth projections
January 2021



Source: imf.org

Revenue of selected tech companies
2020v2019 Q3



Sources: Statista; company filings

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A reverse square root recovery

During 2020, I was sent an employment graph for US non-farm payrolls. It was eerie, it showed a square root sign precisely in reverse: a sharp fall followed by a sharp recovery, but not quite to the levels it was before. That's going to be the overall shape of the economic recovery, but there's quite a lot of variation in between. In sectors like tech and healthcare, games and online financial services, online education and online groceries it has already looked like a V. In fmcg, autos and luxury goods it could be more of a U or even a W. And for the hardest hit sectors – travel, hospitality and offline retail, for example – it will be more of an L. In the worst cases it could even be chair shaped, but we haven't come across this yet.

I'm very bullish on 2021, which will be like 2010 all over again, and on 2022, when the general forecast is for global GDP up 4-4.5%. (When was the last time we saw GDP growth at those levels?) One reason for optimism is that governments are going to pump-prime the recovery. During the Global Financial Crisis, it took a long time for US Treasury Secretary Hank Paulson to get Congress to agree to the TARPs (Troubled Asset Relief Programs) because people thought the banks were to blame, so why bail them out? But this time covid-19 has affected everybody, so morally governments have to get everybody back on their feet. Of course, it's not going to be even: China has made an astonishing comeback, others like Brazil have been much harder. But the next two years are going to be strong.

We are crossing a rubicon

From now on, most advertising will be digital. Magna reckoned that in 2020 global advertising shrank by 4.2%, but spending on digital formats rose 8% to reach an overall share of 59%. WPP put the growth in digital at 5%. Whatever the actual figure, what's clear is that from now on, digital is going to be the majority of all advertising. MoffettNathanson has predicted 20+% growth for US digital in 2021, and a market share of nearly 70% by 2024.

When I worked at Saatchi & Saatchi in the 1960s and 1970s, we always reckoned that if GDP went up in the UK by 1%, then advertising would go up a bit faster. Right now I believe that's true specifically of digital advertising. Brightblue – MightyHive's data analytics and measurement consultancy – ran an analysis and what they found was a strong correlation between digital ad spend and consumer confidence. That has implications for media. Print won't disappear, but newspapers will increasingly go online. And streaming services will open up to advertising. Last summer the millennials in the house where I was staying were amazed when I put on Spotify and it had ads between the songs. My view is that Netflix will go the same way; it will take ads and keep ad-free content at a premium price. So traditional TV channels are going to be under new pressure from the streamers.

The old and the new

"A foolish consistency is the hobgoblin of little minds," Ralph Waldo Emerson once wrote, by which he meant that doing things the same old way will get you nowhere. The holding company idea has been around for far longer than people realise (Marion Harper invented it at IPG in the 1950s when he saw it as a way to grab extra market share).

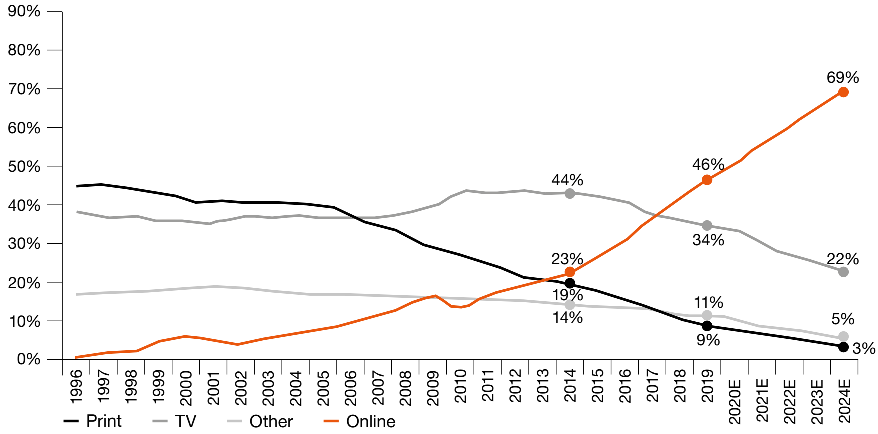
The advertising holding companies were trying to simplify their structure before covid-19 came along, but if anything, they've become more vertical. They've also had to cut jobs and seen their profits disappear as the pandemic exposed their frailties. So our view, that the only solution is for private equity to break them up, hasn't changed. Otherwise, they will become zombies, or the walking dead.

To change something, you build a new model that makes the existing one obsolete, said another wise old bird, Buckminster Fuller, and that's what we've done. Today the holding companies aren't our biggest competitor, it's Accenture.

In the last 12 months, our own model – digital only; our holy trinity of first-party data, digital content and digital media; faster, better, cheaper; and our unitary structure – has gained significant traction. We've passed the phases of brand awareness, brand trial, and proof of concept. We are well on course in our ambition to make us the relevant agency of the next decade. ▶

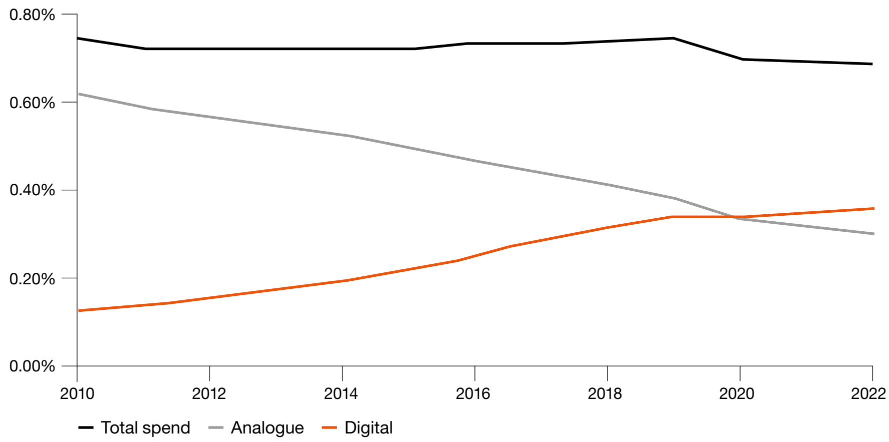
Resilience, recovery, acceleration continued

US ad dollars mix 1996–2024E



Source: MoffettNathanson

Global advertising spend as a % of GDP



Source: ZenithOptimedia

Growing our whoppers

People say marketing's about the sizzle, not the sausage. But you need some meat (or its vegan equivalent) on the griddle in order to build your business. In 2020, we set ourselves a '20 squared' target, to develop 20 clients, or 'whoppers', each generating more than $20 million revenue per year. (I took the idea unashamedly from the admirable marketing tech company Globant, and when the *Financial Times* interviewed me in November 2020, I tried to persuade them to do it in a Burger King outlet.) By the end of 2020 we had secured five for 2021: Google; our major NDA tech company; BMW/MINI; Mondelēz; and Facebook. Now, two more are on the cusp already.

We've already identified another 10 potential whoppers, companies where we have $5 million, $10 million or $15 million of existing revenues; or $2 million to $10 million of revenue; we have to identify a further five. It will take us a few years to get there.

One way we can win whoppers is by adding and adding more revenue with our existing clients – that's actually the better way to do it. Of the five we have, three are tech clients, and that's how we want to keep it, with the ratio of tech whoppers at 55% or 60% so that we will always be tech focused. Tech companies look at the sky, some others look at their boots. Our whopper strategy is all about conversion at scale: winning big. And in 2021 one of our key objectives is to add some sizzle to those whoppers we've already landed.

At one with ourselves

In 2021 our unitary vision will come to fruition. This year we will re-brand MediaMonks and MightyHive as one firm with one P&L, just like Goldman Sachs or McKinsey. We've been working towards this since the moment S^4 was formed, and all our people have really come on board with that strategy. It's the opposite of the market share model where you buy extra brands to get a little bit more share; it's about building something that is excellent, in which everybody works together and has a shared purpose. And more than that, it's a commitment to all our stakeholders to provide the best our industry has to offer.

For our clients, we are their Partner of Record – an engine of innovation and a source of agility. For our people it will mean growth opportunities; the ability to join A-class teams; the chance to learn from others around the world; and helping to build the very best workplace. Right from the start we said we will not acquire other agencies; they will merge with us and 'buy into' our vision and mission. And during the pandemic that sense of unity has been a real source of strength: all for one, and one for all. Or, to adopt Young & Rubicam's mantra of the 1990s, "Better together". ▶

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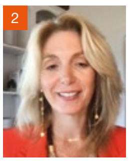

www.s^{4}capital.com/annualreport20

Whoppers, coiled springs and reverse square roots

Watch Sir Martin Sorrell in conversation with Firewood founder, Lanya Zambrano, looking back at the transformational changes in 2020 and seizing the decade to come.

1. Sir Martin Sorrell, Founder and Executive Chairman, S^{4}Capital
2. Lanya Zambrano, President and Founder, Firewood Marketing

Resilience, recovery, acceleration continued

Rome wasn't built in a day

Our third objective for 2021 is to broaden our services through more mergers. We have already invested heavily in data analytics alongside content and production capabilities; marketing systems integration will be another very significant area going forward. We are cash rich after our fund raise, and compared to private equity, with whom we are competing to make these deals, our time horizons are much longer. We ask our technology partners to tell us who the good companies are. And we have a clear set of criteria for the deals we are looking for: strong top-line growth; good margins; companies that are not technologically dependent but part of the service sector; and the management has a strong shareowner interest in the business.

We do need to tweak the balance as we move forward. Geographically, at the moment we are split 70:20:10 (on a gross profit basis) between the Americas/EMEA/APAC and we'd like that to be 40:20:40, although where we are ain't bad with the huge Biden injection into the US economy. Discipline wise, we are split 70:30 between Content and Data & Digital Media; and we'd like that to be 60:40.

If you bring together people with different backgrounds, experiences, cultures and disciplines, and give them the chance to grow, you can achieve extraordinary things

Quality is paramount as we look to expand. As Maurice Saatchi used to say, if you're the best, you become the biggest. So our first objective is to be the best, but after that, who knows?

A lesson from underground

Remember a decade ago the 33 Chilean mining engineers who were trapped 700 metres underground? At first it looked impossible that anything could be done to save them, but the President nevertheless said he would get them out one way or another. A 24-year-old field engineer, Igor Proestakis, gave him an idea, and they dug a borehole into which they could insert a capsule that was just big enough to hold a person. After 69 days, every single one of Los 33 was rescued alive. The *Harvard Business Review* wrote a fascinating case study about this mission (https://hbr.org/2013/07/leadership-lessons-from-the-chilean-mine-rescue).

It showed the power of the combination of experience and wisdom on the one hand, and intelligence and fearlessness on the other. But what it really demonstrates is that nothing's impossible if you set your mind to it, and that's a lesson our people prove day after day. They are our best asset: every single one has a contribution to make, and we are constantly on the lookout for talent. If you bring together people with different backgrounds, experiences, cultures and disciplines, and give them the chance to grow, you can achieve extraordinary things.

Metamorphosis and other short stories

We don't own technology, but we do share some of the growth characteristics of tech stocks. 2020 saw our fledgling Group make remarkable progress, both in winning the trust of some of the world's top brands and being joined by exceptional businesses around the world. All that was achieved in the face of the greatest global crisis in decades. Our original three-year plan envisaged us doubling both our top and bottom lines between 2019 and 2021 – our 2020-2023 plan had the same objective. The new marketing age is up and running and, thanks to our investors, the peanut has now metamorphosed into a triple £ and quadruple $ unicorn. ■