Our world

By Sir Martin Sorrell

In his May 1983 *Harvard Business Review* article 'The Globalization of Markets', Ted Levitt highlighted that multinational companies were abandoning the strategy of adapting their products to idiosyncratic consumer preferences in individual countries in favour of "globally standardised products that are advanced, functional, reliable – and low priced." Globalisation was born and became the reigning economic paradigm for decades to come.

Forty years later we are moving away from globalisation. Among the reasons are a series of disparate geo-political developments, and a level of uncertainty that is unprecedented in recent times. The West's stand-off with China, the war in Ukraine and the growing threat from Iran: these are all shifts that have divided the world and unleashed a nightmare for those building and operating supply chains to serve global markets. The specific hurdles include escalating energy costs; the insecurity of sourcing components or manufacturing from countries at risk of conflict; and targeted international sanctions.

Once you could plant your flag and trade wherever there was a favourable demographic; now the world is becoming fragmented and we all have to be much more selective about where we invest. Onshoring, re-shoring, 'friend-shoring' – all these will have a part to play in business success over the next few years. The challenge will be to find secure places where you can build supply chains and service your key markets.

Just as the World Cup in Qatar demonstrated that the hegemony of Europe and South America in football is no longer guaranteed, from a power structure point of view the world has also become a very different place. China's President Xi almost never travels abroad, but when he did recently it was to Saudi Arabia – a country with annual oil revenues of $300 billion that is breaking away from the Western orbit.

Is this the end of globalisation? David Solomon of Goldman Sachs says he thinks it's less globalisation. I think it's a little bit more fundamental than that. If you were in the US starting a business today, you're more likely to focus on the US and Latin America – I don't think you would be so keen to invade Europe orAsia as in days gone by.

The same, but different

We've been in difficult situations before. The great financial crisis of 2007-2008 is one example; the recent covid-19 pandemic is another. The reason it seems different this time is that it's not easy to see the way out: everything seems to lead down a blind alley. The war in Ukraine could go on for 10 years. If Putin is removed, it is possible that someone even worse will replace him. Meanwhile, Europe has become less stable, facing the costs of the war and high energy prices for years to come.

With China, the divergence from the West looks equally intractable. Xi's speech from the Congress late last year was Marxist Leninist in tone: we are going to choose our own road, and Taiwan is a fundamental part of Mao's legacy. At a meeting in Washington recently, a senior Republican asked a group of us: "what can I do to help you in business?" When I said: "you can reduce the invective against the Chinese," her response was that is not going to happen. But the way to deal with the Chinese is not to insult them in public – you can make your arguments privately and they will listen.

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China presents significant conundrums for the international community. Key among these is the danger that it will push ahead with an invasion of Taiwan, and the threat that China seeks to harness technology for anti-democratic purposes. Beijing also has challenges of its own. The country is still in the throes of escaping the covid trap, and there are big problems in the real estate market and with youth unemployment. The rule used to be that China needs to grow by at least 5% or 6% in order to maintain social stability and absorb the pools of labour that are coming in. The signs are that Xi may become more accommodating domestically in order to get the economy going, but he's unlikely to dial down the aggression towards the West.

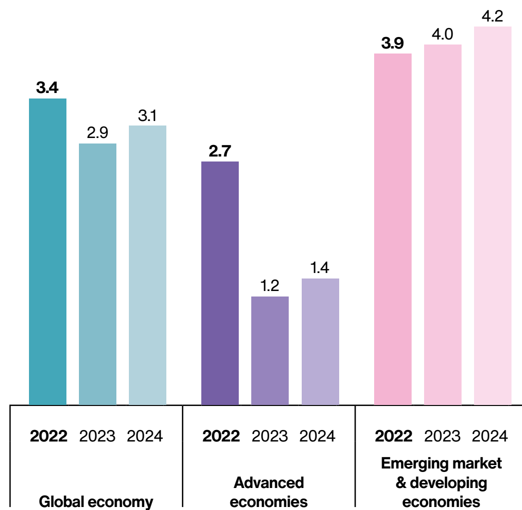
And in Iran, while Iranians I've spoken to were confident the protests would lead to the fall of the regime, it doesn't look that way to me. Iran may be a rounding error in economic terms, but its geopolitical impact is much greater. President Biden wanted to re-constitute the nuclear agreement – the Joint Comprehensive Plan of Action – but that has collapsed and Iran is still working towards developing nuclear weapons.

This comes against a subdued economic backdrop. Global GDP is set to grow in 2023 at 1.5-2%. We are moving from a world with low interest rates, inflation and energy costs, to one where everything is reversed. Inflation is going to continue, if we're lucky, at 3% or 4%; interest rates probably at 4% to 5% – certainly higher than we are used to; and energy prices will also remain high.

The 2020s, in other words, will be very different from what we are used to. And that means you will have to run your business or live your life in a totally different way. ►

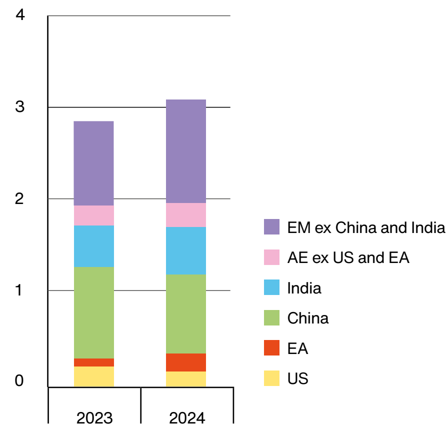
Our world now continued

World economic outlook growth projections (%)



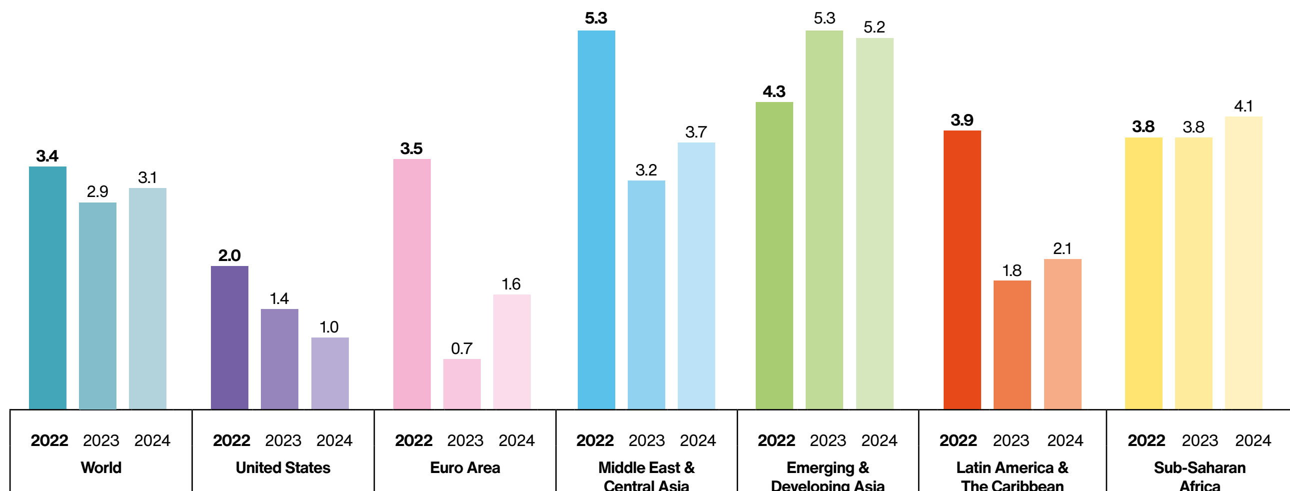
Source: IMF World Economic Outlook Update, January 2023

Contribution to world GDP growth (% share of world growth)



Sources: IMF and IMF staff calculations
Note: AE = Advanced economies; EM = Emerging economies; EA = Euro area

Growth projections by region (% change)



Source: IMF World Economic Outlook Update, January 2023

A new world order

We're moving from a world dominated by the US to one that is more polycentric; at the very least it's a G2 world now with the US and China, and that could become G3 with India. The two key issues for businesses deciding where they want to operate will be growth and security. The Middle East is full of promise going forward; Saudi Arabia grew 8.5% in 2022, and Qatar and the Emirates are also growing strongly. Asia outside China is also very attractive, especially Indonesia, Vietnam, Malaysia and the Philippines. Vietnam grew at 8% in 2022 – its fastest rate since 1997.

The Americas are going to become more important for different reasons. The world has to find places that are more secure; you can't onshore labour intensive manufacturing to countries like the US because of the cost, but although Latin America has shifted to the left, it represents a relatively stable business environment. Mexico is on the doorstep of the US and offers a great partnership. I'm very bullish on Brazil with Lula back in charge because there is a highly entrepreneurial culture there. Further afield, another example of companies moving to more secure locations is Morocco, where car manufacturers are re-training rug weavers to wire their vehicles.

The US has the prospect of re-kindling growth with lower taxes and less regulation after the Presidential election in 2024 if the Republicans win; there are already promising signs on inflation and interest rates.

Europe looks much less promising and the UK worst of all. The current situation in the UK is like the 1960s. The fundamentals are so difficult in a post-Brexit world: there is an exodus of people from the financial community and a failure to acknowledge that the reason prospects are so gloomy is because of Brexit.

What does all this mean for S^{4}Capital? Our geographical split is currently 75% North and South America; 18% EMEA; 7% Asia. Previously our objective was to move to 40/20/40, but now it will probably be 60/20/20.

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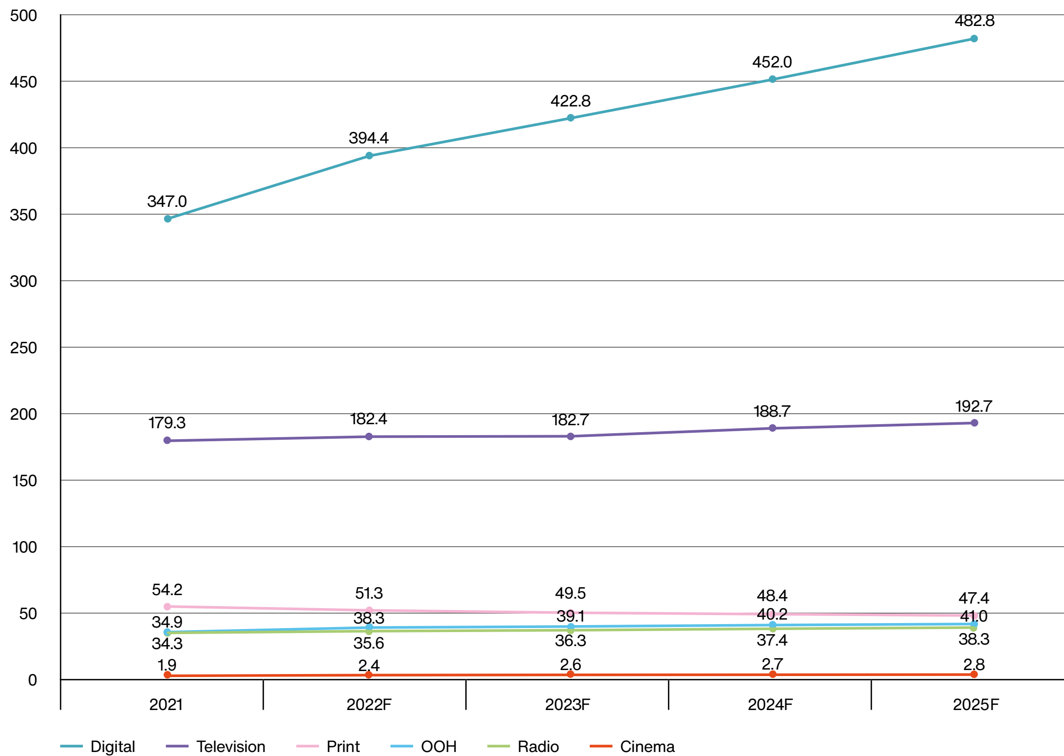
Technology to the rescue

With inflationary forces baked into the global economy for the foreseeable future, one of the few bright spots is the role that technology can play in countering inflation by reducing the cost of production in so many areas, from car manufacturing to the environment. Tech boomed on the back of quantitative easing which fuelled an era of cheap money. As the cost of borrowing has gone up over the last 12 months, tech stocks went out of favour; but when interest rates start to fall, there will inevitably be a reassessment of the growth part of the market, and technology will stand out as the beacon. Technology in its different forms has always enabled us to do more with less. If you went back in time and asked if we would be able to survive as a species with the population at the level it is now, people would have said that was not possible. But we managed to build the technological responses that have made that so.

In the advertising world, today's growth is all digital. Spend focused on digital media represents 60-65% of budgets this year; it will reach over 70% by 2025. The argument that advertising is going to rise as a proportion of GDP from about 1% in the US to one and a half is entirely premised on digital growth. Our forecast for the platforms is 7-8% growth in advertising revenue in 2023, with Apple and Microsoft leading the pack. We see a strong push for digital transformation ahead and Technology Services – the part of our business that helps companies to manage that – will be up by 7-10%. The metaverse will also provide growth opportunities in time. It's now happening in sectors such as entertainment, luxury, healthcare and sport; we're already working with NBA for example. ►

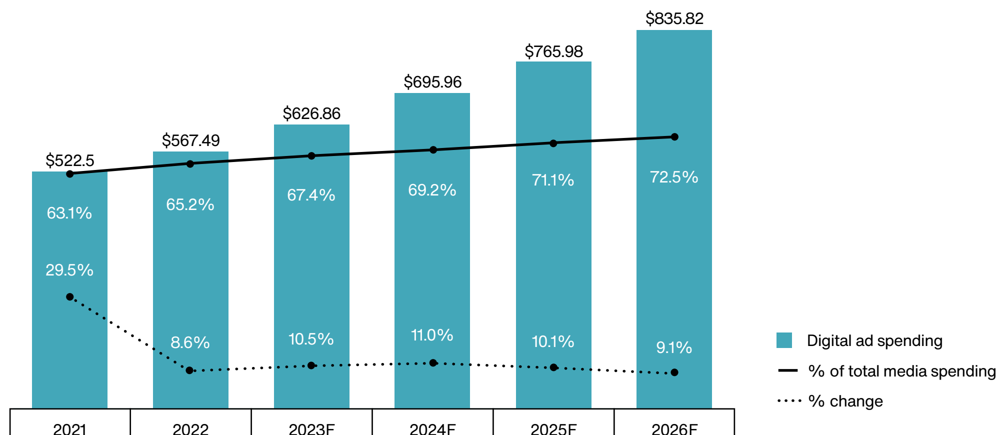
Our world now continued

Ad spend evolution by channel ($bn)



F: Forecast
Source: Dentsu 2023 Global Adspend Forecast

Digital ad spending worldwide 2021-2026 ($bn)



Note:
Includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets and other internet-connected devices, and includes all the various formats of advertising on those platforms; excludes SMS, MMS and P2P messaging-based advertising.
F: Forecast
Source: eMarketer

Our market now

7-8%

Digital media spend is projected to grow at 7-8% in 2023[1]

11.7%

Digital transformation services is expected to grow 11.7% in 2023[2]

$197bn

AI is already a $197bn market growing at 44%[3]

$21.1bn

Influencer spend expected to be $21.1bn in 2023, up 29%[4]

7-8%

The three main platforms are expected to grow ad revenue by 7-8% in 2023[5]

+87%

Top 25 agency groups had 2021 revenues of $129bn, S4Capital Group has 0.73% market share, up 87%[6]

Sources:

1. GroupM, Dentsu, ZenithOptimedia, Magna, December 2022
2. Gartner Digital Business Implementation Services, April 2022
3. GrandView Research, Artificial Intelligence Market Report, 2023
4. Influencer Marketing Hub, 2023
5. Morgan Stanley, March 2023
6. AdAge, April 2022

The bots are coming

AI is going to have a huge impact in the sectors we serve, and that plays perfectly to our transformative mission. Media.Monks' report, *The Revolution Will Be Generated: how AI is changing everything you know about marketing,* sets out how artificial intelligence and machine learning will disrupt business across content, data and digital media, and technology, in what could prove a Kodak moment for those who fail to keep up. Generative tools like ChatGPT and Bard are already accelerating the delivery of hyper-personalisation, conferring superpowers in terms of productivity and capability to our teams in all departments, and enabling us to create AI-driven brand experiences for our clients. AI may also encourage big tech platforms to bypass media agencies and go straight to clients – without having to employ thousands of people to execute media plans. In that case we will fulfil a new role: providing assurance that the algorithm is optimised for clients' benefit. Everyone has to decide whether AI is a threat or an opportunity; for us it is unambiguously the latter and we will be relentless in exploiting our early mover advantage.

The new watchword is agility

For clients, agility is a key priority – both internally and from their partners. The two big issues for clients right now are top-line growth, which has become extremely elusive; and pricing, with the need to adjust prices in response to inflation. They want speed of execution, less bureaucracy, and they want advertising that delivers activation and performance, with the help of media mix modelling, and ROI measurement.

Shifts and transitions

Consumer behaviour has modified to coincide with the shift in clients' priorities. Attention spans have shortened, and consumers have become more promiscuous in their perspective towards brands.
The immediacy of attention spans creates a further imperative to focus on activation and performance, at the expense of long-term brand awareness. In short, we must be much more in the consumer's face. This will be anathema to some people in our industry, but data-driven creative is better than intuitive creative. It's natural that creatives want to ►

Our world now continued

produce great campaigns and get lauded for their work. But lavish TV films are no longer where the action is; that's digital campaigns delivering measurable results. And this is not a temporary state of affairs – it is long term or permanent.

In the short term, expediency dictates that the emphasis on 'purpose' is also going to be reduced. That's because of the focus on immediate priorities, the need to have a good story to tell at the next quarterly earnings call. You could see evidence in the fact that the CEOs of both Unilever and Vodafone – companies with a strong sense of purpose – are departing. It's the same logic by which the activist group Bluebell is demanding that Larry Fink resign at Blackstone, because they say he's not taking ESG seriously enough. And the same argument has led the UK Government to decide on opening a new coal plant in Cumbria. It's needs must when the devil drives.

We are strengthening our practices

In 2022, Media.Monks merged with enterprise technology developer TheoremOne, and with social media content company XX Artists. These new additions are not only strengthening our three practices, but also reinforcing our capabilities with the tech platforms. TheoremOne has significantly upped our Technology Services game in the US, providing a distribution network for Zemoga in Colombia. XX has reinforced our social practice and is particularly strong with Google and YouTube. We're now 65% Content; 25% Data&Digital Media; and 10% Technology Services. I really want it to be 50/25/25. The push for technology transformation is going to be big in 2023, and our forecast for Technology Services is 15-20% growth, so we are definitely getting there.

Our unification strategy calls for further energy and commitment as we continue to expand. Parts of our operation that we need to integrate more include Cashmere, Decoded and Jam3 in North America; and Raccoon in Brazil. We've come a long way already and we will realise increasing benefits from adopting a unitary brand and a single P&L.

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Whoppertunity knocks

Our 20/20 strategy – to win 20 clients with billings of $20 million a year, or 'whoppers' – has now reached the halfway stage. During the last year we went from 6 to 10 confirmed 'whoppers'. And we have a healthy pipeline of further candidates for 'whopper' status going forward.

A focus on talent

Finally, a word about our people. We are seeing something of an armistice in the war for talent. We've always had to deal with a strong market for digital skills, in which some of our people were lured away with crazy money, options and job titles, but it forced us to be competitive. That market has now eased, with Amazon, Meta, Microsoft, Netflix, PayPal and Spotify all cutting, and others including Apple and Alphabet, reducing their hiring.

We've ended the year with 8,900 people and we're applying a brake rather than a freeze on recruitment – which means we are able to look carefully and selectively at hiring decisions. In effect we've slightly reduced the headcount in Content and in Data&Digital Media, while building up Technology Services.

The situation in the world may be discouraging, but one thing we won't sacrifice is our commitment to diversity and wellbeing among our people – including our Women in Leadership Program, Fellowship Program and our new Scholars Program that is going into US high schools to recruit. For anyone starting a career these are challenging times. It may be a cliché, but our people are our future – and our best chance to navigate to an era of greater optimism. ■