US Agencies Face a Major Reckoning in the Wake of Coronavirus

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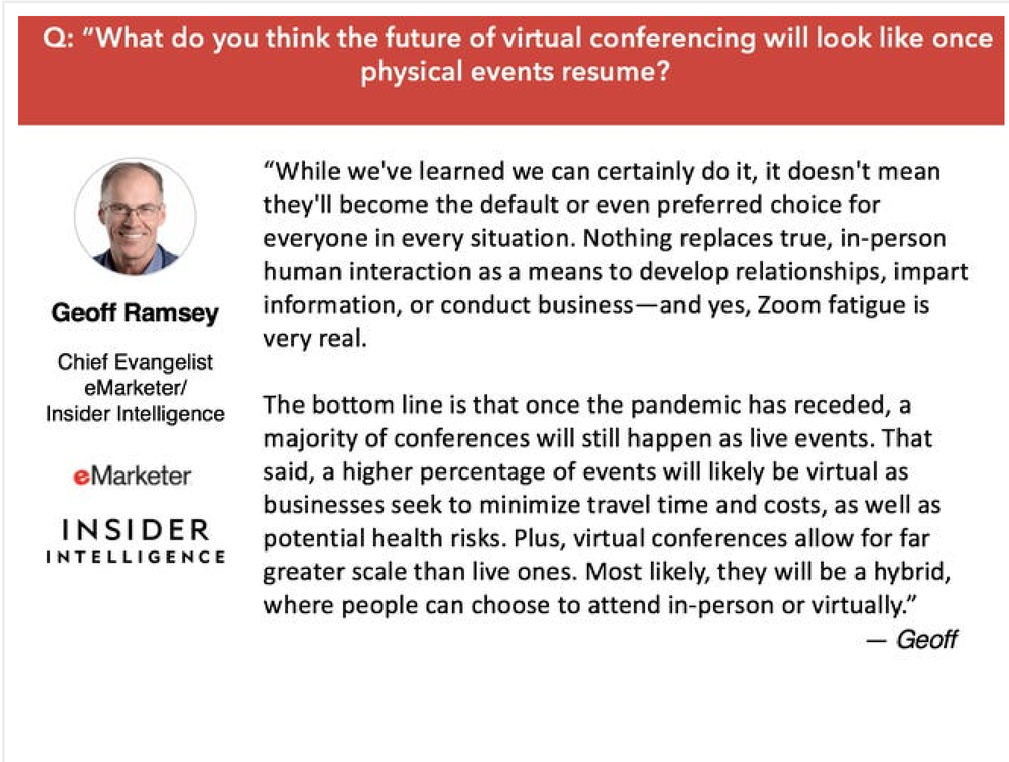
Mariel Soto Reyes

US agencies might be looking at a loss of over 50,000 jobs by the end of 2021, per Forrester estimates cited by AdExchanger. For reference, in total an estimated 250,000 people were employed by ad agencies as of the end of 2019, per IBISWorld.

Outside of the US, job losses are expected to match those losses at around 50,000. For context, agencies have already been forced to lay off and furlough staffers in the wake of the pandemic, as well as institute pay cuts for some remaining staffers.

The anticipated cuts are largely expected to result from the pandemic-driven pullback in ad spending. Forrester estimates media spending to decline by 23% over the next two years. For comparison, our severe estimates put US digital display advertising at an 18% decline in the second half of this year, and US TV ad spending at a 29.3% decline over the same period.

However, beyond H2 2020 it becomes difficult to make such a definitive call given the amount of uncertainty the market currently faces. Regardless, it's a dire outlook, but the cuts would likely spark a reimagining of strategies for large agencies and brands alike.



The downturn could finally force the big six holding companies to embrace digital technologies that they previously struggled to adopt. The looming additional job cuts would likely force the ad giants to embrace automation and other technologies in order to maintain the pace of work and become more agile — as well as a shakeup to their business models.

These dismal predictions also come on top of the fact that the big holding companies — including Publicis and WPP — had already been struggling and, as put by eMarketer principal analyst Nicole Perrin, "they were just not in a position to sustain a blow like the pandemic." For instance, WPP reported a 1.6% fall in revenue for 2019, leading to a dramatic drop in its share prices.

In the long-term, agency-side layoffs are likely to accelerate the trend of in-housing among brands. Companies are already increasingly pulling their advertising in-house: Some examples include L'Oreal, which has taken a partially in-house and partially managed approach, and PepsiCo.

Further, in 2019 42% of marketers indicated they were exploring the feasibility of pulling digital media and creative in house, per a Forrester study cited by eMarketer, amid other investments and plans to become self-sufficient.

However, this isn't likely to pick up steam in the immediate future given that hiring is frozen for many companies and there are huge upfront costs required to build out in-house creative and media buying teams. Instead, as needed, advertisers are likely to rely on project-based work from comparatively more agile, and less expensive, freelancers — or continue pausing spend altogether. For example, Perrin also noted that programmatic strategists are currently seeing increased demand for services as marketers look to experts to help guide them through current uncertainty.