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https://www.forbes.com/sites/avidan/2021/05/03/new-research-reveals-that-marketers-prefer-best-of-class-agencies-and-reject-arranged-marriages/?sh=517bdd7d3dd1

New Research Reveals That Marketers Prefer Best-Of-Class Agencies And Reject Arranged Marriages

On the surface, it appeared to be a good idea: aligning multiple agencies within a single holding company, for the purpose of better roster integration and collaboration. Along With the fragmentation of media, more and more agencies had been added to clients' rosters, thereby taxing their ability to manage it.

However, advertisers soon discovered an ugly reality. Agencies, even within the same holding company, "silo" their profits on separate P&Ls, since the business model of holding companies treats disparate agency brands as distinct financial units. This is not a recipe for collaboration. Neither does consolidation in one conglomerate offer economies of scale. It often results in duplication, since unnecessary layers are added.

To get around these issues, some holding companies create a dedicated, single-client multi-disciplinary team with a unified P&L. This approach has been met with various degrees of success. WPP established one such agency for Dell but that unit actually failed to produce even a single ad before it was eventually fired. WPP also lost a significant portion of its dedicated Ford account. Omnicom established a dedicated unit for McDonald's, and lost the business in just two years.

Advertisers are becoming indifferent to the concept. Research firm COMvergence conducted a survey about the make-up of pitches within a 24-month time frame, in 2019 and 2020. It involved participation from U.S. creative and/or media and digital agencies.

Of 570 agency changes, only 13 advertisers, just 2%, selected agencies from the same holding company when choosing multiple agencies. Only in one case, as COMvergence's survey reports, was the entire communication budget assigned to a dedicated, standalone unit.
Advertisers' preference to best-in-class, stand-alone agencies in pitches is obvious. They are rejecting the notion of consolidating in one holding company overwhelmingly. Which questions the central premise of the holding company model – that they are a better because of their ability to coordinate between different marketing specialties.

Advertisers also discovered that consolidation comes with a price tag. For every 2 good agencies offered by the holding company in the package deal, 8 specialty agencies and marketing firms in the bundle are likely to be subpar. Nobody could offer a lineup of just great agencies, because nobody has a lineup of all great agencies. Therefore, compromise on quality becomes part and parcel of consolidation in one holding company or hiring a dedicated agency.

The fact is, that creativity is influenced by agency culture, and culture is determined by senior management. In the established agencies the culture is set by their history which, in turn, influences the type of people working there, including the senior leadership selected. Obversely, in an artificial, created agency, the senior management is usually drawn from across a range of other agencies, coming from diverse cultures, and put together much like the arranged marriage, lacking passion and inspiration.

Finally, there's the issue of cost. The big financial difference between having multiple agencies, and one dedicated agency, is that advertisers have lost the ability to competitively benchmark across the agencies.

Certainly, at the time of creation to win a competitive pitch, advertisers can ensure they have a competitive fee in place. But, with time, as service requirements change and technology brings cost efficiencies to the process, the advertiser no longer have the simple ability to competitively compare rates, resource requirements and costs, without going to market again.
The customized, dedicated agency provides advertisers with convenience. But convenience comes at a cost. Set up costs for the agency, including fixed costs like real estate and equipment are paid by the client who assigned tall the business to a single agency. In an existing agency, these are shared across all clients.

In fact, the entire costs of the agency are paid by the client, either directly or indirectly, as the advertiser is the only source of revenue for the agency. Unlike an agency with multiple clients, where a large advertiser can effectively negotiate a rate that means they are subsidized by the other clients of the agency, there is no avoiding paying for all the infrastructure costs here.).

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