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Point of View

Leaner & Meaner
Digital Marketing Agencies Resume Hiring and Continue Layoffs Into 2010

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Getting Fit

The digital marketing industry—for the first time in its maturation—felt the impact of the recession. Increasingly, we're asked by agency executives and candidates alike about the state of the employment market in 2009 and 2010. To answer that question, Kaplan-Gardner interviewed 15 senior executives from the top digital marketing agencies. This Point of View (POV) document synthesizes their insights and perspectives on staffing and employment and how the industry is responding.

Weighing In

In this down economy, digital marketing has fared somewhat better than many business sectors. Online ad spending in 2009 is increasing over last year by about 4.5% to $24.5 billion. Corporate marketers slashed advertising budgets as fast as new spreadsheets were printed. They continued to move more money to digital, albeit at a slower pace than in past years. The digital agencies began winning a greater percentage of the remaining marketing dollars than the traditional agencies.

73% of the digital marketing executives Kaplan-Gardner interviewed were cautiously optimistic about the industry's growth prospects. Even so, most held back on hiring, particularly in the first half of 2009, while they gauged the impact of the economy on their businesses and that of their clients.

Liposuction

In late 2008, a notable trend emerged. With a critical eye, most agencies began using this downtime to evaluate the health of their organizations and business models. 67% of the executives indicated that their organizations, going into 2009, were bloated due to the hiring frenzy of the past five years. So, they became more nimble and efficient—***leaner and meaner***.

Nearly all of the digital heavies—Digitas, Razorfish, Ogilvy, imc^2, R/GA, Organic, Tribal DDB, AKQA, and others—began a series of "surgical cuts" to trim excess fat (read: layoffs). Other agencies cut interactive staff—Beyond Interaction, Saatchi & Saatchi, Critical Mass, Goodby, Crispin Porter, Modernista!, Draftfcb, Euro, McCann, iCrossing, Rapp, Tequila, RMG Connect, The Richards Group, and others.

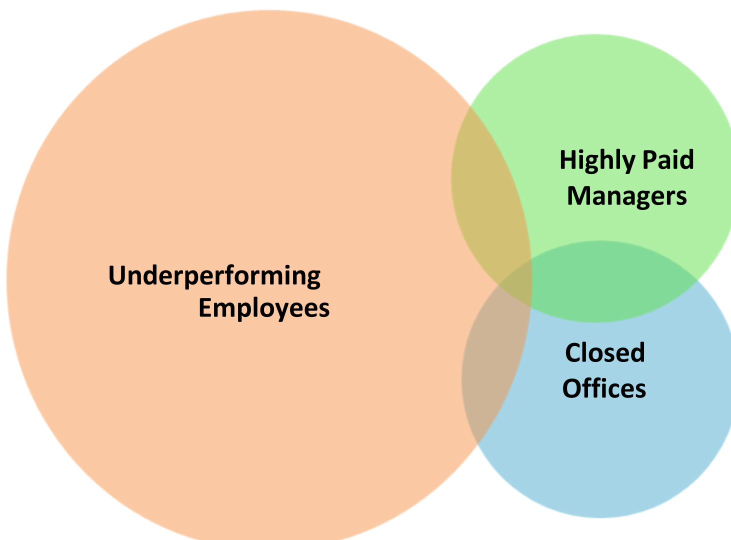
Digital marketing agencies laid off thousands of staff, an enormous number for a relatively small industry. Some agencies, like Razorfish, shuttered offices. BBDO mandated that its employees take unpaid leave, while GSD&M and Arnold instituted staff-wide salary cuts that included interactive employees. Several mentioned that they were thankful to still have jobs themselves.

To reduce overhead, nearly all agencies discontinued proactive "opportunity hires," in favor of just-in-time hiring policies. Vacated positions remained unfilled, another tactic for reducing costs. One executive called it, "attrition without replacement."

These layoffs have largely affected three populations primarily (see Figure 1):

1. Underperforming employees
2. Employees in offices that closed
3. Managers whose high compensation wasn't justified by their department's performance

Figure 1: Digital Marketing Employees Laid Off



Working Out

In-house recruiters and staffing agencies were flooded with significantly larger numbers of job seekers and applicants, due to anemic hiring, combined with industry-wide layoffs. With less urgency to fill positions, recruiters improved their approaches to staffing. They interviewed more candidates for fewer positions. They instituted multiple rounds of interviews, followed by deeper background and reference checks. The average time spent hiring each candidate increased by almost 25%; and key, higher-level positions took as much as eight months to fill.

Disciplines that historically lacked sufficient talent—Search Marketing, User Experience, Account Management, and Strategy—became easier to fill. Recruiters placed greater importance on employee referrals in evaluating applicants.

The cuts went deeper. Total compensation for new hires dropped by 10% or more at the most senior levels. Three executives shared that, while it wasn't a company policy, they began paying high-caliber talent lower salaries than in the past. They increased the use of temporary staff in lieu of salaried hires, even in roles previously considered too strategic, sensitive, or critical for an outsider. These included interim leadership roles and Strategy experts. Temp-to-hire staffing and "permalance" models became more prevalent, because they saved on benefit costs, allowed managers to evaluate performance before making a full-time hire, and could be eliminated easily.

Patient Responsibility

In turn, job seekers were forced to make major compromises—in particular, they were more fiscally conservative, in preparation for longer job searches. Many opted to freelance, until a full-time position became available. Candidates accepted lower-paying and lower-level positions than their previous jobs. Many agencies reduced or eliminated relocation assistance. Candidates were more willing to relocate, especially from smaller to larger markets. Some left the industry altogether, out of financial necessity, more than a desire to make a career change.

Remaining employees felt the impact of the economy at the office. In an industry notorious for long and tireless hours, they began working even longer hours, with responsibilities previously shared by two or more specialists. Managers were willing to risk potential employee burnout. Even the employed initiated their own job searches, as a precaution against additional layoffs.

Recovery

Agencies began to resume hiring in Q3 2009. Rumors abound and layoffs will likely continue in 2010, but not every agency is simply slimming down. Most of the executives interviewed defended these layoffs as healthy. 53% disclosed that they were considering additional layoffs. However, 40% are also strengthening their organizations at the same time, by hiring experts in key functional areas. As digital agencies become more strategic partners with their clients, new growth opportunities are emerging and the need for specialized talent is rising. Kaplan-Gardner is conducting more searches for experts with niche skill sets, and for executives with broader leadership experience—particularly traditional marketing and management consulting. Pure digital is no longer sufficient to get hired for the choicest positions.

Key agency services focus on:

1. Deepening the relationship between the brand and its customers
2. Delivering improved and more measurable ROI to their clients

This translates to greater demand for people with skills in Strategy, Analytics ("Quants"), Relationship Marketing, Social Media, and Mobile Marketing.

Agencies require more from their employees and new hires. They seek discipline-specific experts who are capable of working directly with clients: Analysts with strong interpersonal skills; Strategists who can turn ideas into tactical execution; and executives with great management skills and strong operational experience. To find this talent mix, agencies are also recruiting from top consulting firms, like McKinsey, Bain, and BCG, and even technology companies like Accenture, Deloitte, PricewaterhouseCoopers, IBM and others.

Digital marketing agencies will continue to hire and lay off into 2010 in order to stay lean and mean.

Additional copies of this POV are currently available as free downloads at www.kaplangardner.com/homepage.html

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About Kaplan-Gardner

Kaplan-Gardner is a retained search firm specializing in recruiting high-profile executives for the top digital marketing agencies globally. Clients engage us for their most mission-critical positions, because of our deep relationships with industry thought leaders and our exceptionally-talented candidates. Candidates entrust us to place them in the most vibrant and cutting-edge positions. We seek long-term success for clients and candidates—through exceptional hires, collaboration, and enduring relationships. And we stand behind the quality of our work. For more information, please visit www.kaplangardner.com or contact:

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