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<< Return to [DM job opportunities may rise with expected second-half economic recovery](#)

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Despite all the talk about company leaders paying greater attention to ROI – a welcome trend for results-driven direct marketers – those agencies have still felt pain over the past 12 months thanks to an overall decline in marketing budgets.

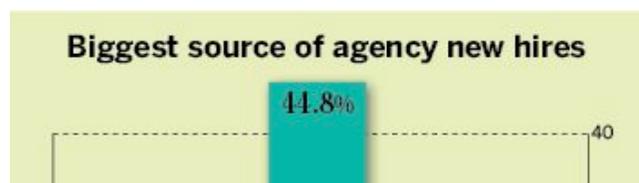
While layoffs are common at agencies, some firms also are taking additional steps such as adjusting their fee schedules and messaging, and creating new offerings that are more in tune with the times.

A light at the end of the tunnel – however dim – could be in sight, according to some surveys. Agency executives expect work to pick up in the second half of the year, as much of the strategizing they have been engaged in with clients in the first half finally goes to market.

“We’re seeing a lot of work on the calendars for the third quarter and on into 2010,” said Joy Schwartz, president of Euro RSCG Chicago. “In the first and second quarters, the fear was there, and nobody knew what was going to happen, so they were holding onto their budgets.” After months of retrenchment and strategizing, many brands are ready to start executing new campaigns, she continued.

In the latest employment report from direct marketing executive search firm Bernhart Associates, 16% of responding companies overall said they are planning to add to staff during the current second quarter. However, 30% of participating agencies are planning new hires this quarter. Agencies also are expecting fewer layoffs than their marketing and supplier counterparts. A record 265 companies responded to the random survey, which was e-mailed the week of April 6. The number of agencies that responded was 49.

In a survey from the Society of Digital Agencies (SoDA), 91% of agency respondents, including both traditional and digital agencies, said they believe that there will be the same or more digital marketing work in 2009 than in years past. In addition, 47% of agencies



are currently hiring digital personnel.

Still, with news like GM's recent announcement that it will lay off 20% of its marketing staff making headlines, it's clear these are leaner times.

One way they are adjusting to this reality is by reconsidering the types of services they offer clients and even how they bill for those services.

Euro RSCG Chicago, for example, is doing more project work these days.

"We have retained our core retainer clients, but that's not to say that their budgets haven't shifted a little bit, because they certainly have," said Schwartz, adding that the company is doing more project work to balance out the workload and is on track to earn what it projected for the year. The agency is "not going to flat fee projects," she continued.

While no one interviewed would admit to introducing flat fees, many felt the practice has grown this year.

"Agencies across the board are doing the best they can to be good partners, and that means in some cases adjusting rates," with flat fees being one of the options they might offer, said Chad Ciesil, president of WhittmanHart Interactive and a SoDA member.

In addition, there is more of a focus on projects that can produce short-term results, Ciesil said.

"We don't see our clients being dominated by short-term thinking," however, the macroeconomic pressures are forcing them to put a greater emphasis on strategies such as search, which is more measurable and more immediate than some other strategies.

Search engine marketing agency Didit even added a guarantee to its pitch to new clients, promising that it will decrease their Google bill by 25%.

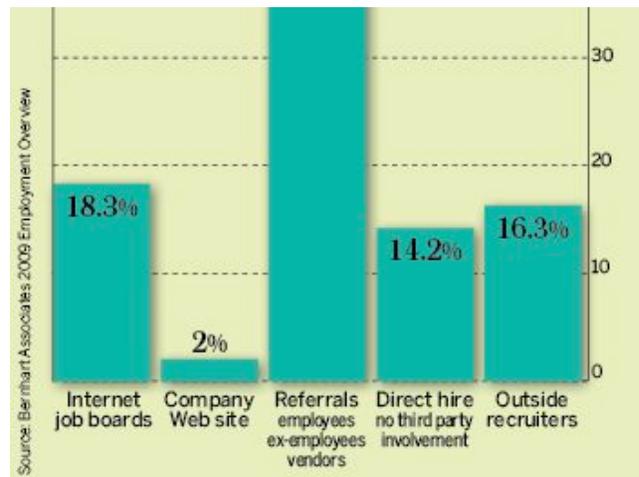
"In the past, we marketed ourselves as an agency that helps clients grow market share and achieve efficiency at the same time," said Mark Simon, VP of industry relations at Didit. "Now, the pitch is almost entirely efficiency."

The agency has set aside a "trust fund" after determining a benchmark with new clients at the beginning of the relationship. If Didit doesn't hit the metric, which was guaranteed upfront, the agency will refund the client for the agreed upon amount.

Epsilon has created a set of "starter kits" to help clients understand new media channels and help them launch projects in these areas without incurring a big expense.

Part of the reason for the kits is that Epsilon is seeing a lot of interest from clients in trying to integrate social media with traditional marketing.

Consumer packaged goods companies, in particular, "are in the epicenter of the convergence we're seeing between Web, e-mail, mobile and social network marketing," said Andrew Frawley, president, digital services at



Epsilon. “The convergence is very powerful, so they are aggressively trying to get to the next level.”

Social media is one of the tools that agencies are helping brands use to get a better sense of who their core and potential customers are as they lay the groundwork for emerging from the recession smarter marketers, said Schwartz. Customer data and a brand's position in the market, along with monitoring the social sphere, “are the three main tenets everyone is looking at to make sure they are going to be more effective come the second half,” he added.

This is a period of “experimentation and innovation,” said Ciesil. “Certainly people are concerned about lowering costs and generating near-term results, but there is also a yearning to find the path that will help them break out, and that is what is driving a lot of the hyper-innovation we're seeing right now,” he said, referring to the daily announcements coming out of the digital realm, from new advertising models for the publishing industry to brands experimenting with how to use Twitter.



The need to do more with less as budgets are cut also is driving innovation, said Wendy Lurrie, president of G2 Direct & Digital.

The economic realities of the recession also are bringing about a greater demand for relationship marketing, she said.

“We're seeing some positive changes, as companies are paying more attention to their current customers, and brands are recognizing that you have to protect your base,” Lurrie said.

Consumer packaged goods companies, which have not traditionally been big players in the relationship marketing category, are calling to discuss relationship programs, she noted, and adding that G2 has created the position of director or relationship marketing.

If all this strategizing and experimentation actually comes to fruition in the second half, it could be a pretty exciting time.

Euro RSCG is “pretty excited” about the second half of the year, Schwartz said. “We have a lot of things in the works; now let's see where it all goes,” she quipped.

Additional reporting by Lauren Bell, Dianna Dilworth and Mary Elizabeth Hurn