THE WORLD 2

Long comes out fighting for the micro-networks

Reaction to the scaling back of Naked's Eastern ambitions suggests that the end is nigh for the little guy. By Arun Sudhaman

For an agency as sure-footed about its PR as Naked Communications, recent events have proved oddly compelling. Specifically in Australia, where the agency suddenly parted company with its Asia-Pacific chief executive, Mat Baxter – the 30-year-old *wunderkind* who had, in five years, led Naked's successful charge Down Under and looked set to replicate the trick across the rest of that region.

Instead, Baxter left amid the type of controversy that Naked has often proved adept at maximising on behalf of its clients.

A trademark media stunt for the fashion brand Witchery, involving a fake video starring a model pretending to look for love, turned sour when journalists complained that they, and members of the public, had been hoodwinked.

While Baxter and Naked's chief executive, Nigel Long, have publicly denied that the spat was a factor in the Australian's departure, the timing of events (Baxter left just days after ads in the national press revealed the stunt was a fake) has led many in the country to see cause and effect.

But whatever the reason, his exit, just one year after taking on responsibility for regional expansion, and Long's confirmation that no immediate replacement is being sought, has raised questions over Naked's long-term strategy in the region. After all, for two years the agency regularly touted its imminent entry into China and India.

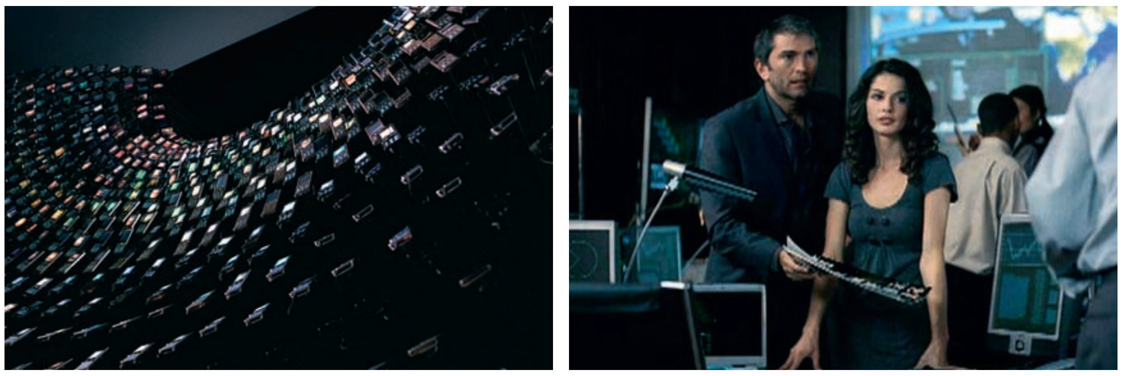
Long admits the Asia-Pacific expansion plan is now "on hold", but points to economic factors as playing a pivotal role. "Ideally, we'd have something in China and India," he says. "It's more of a mid-term goal."

Long also denies that Naked's sale to the low-profile Australian holding company Photon has affected the agency's development plans. "I'm sure people think you become more cautious and move into earn-out, but we have opened two offices in Denmark and Sweden and inked a joint venture since the buyout," he explains. "One of the great bonuses of Photon was that they have encouraged us to extend the footprint."

Naked certainly knows how to launch an office. Its New York operation reportedly hit the $10 million in revenue mark after just 12 months. But, in a crippling credit crunch, some commentators feel the Naked micro-network offering is a luxury clients can no longer afford, and that wider issues are behind the decision to rein back on expansion plans.

COLIN STOUT

Long…admits Naked's Asia-Pacific expansion is now 'on hold' but says economic factors played a pivotal role



Nokia (left) and American Express…two clients with different approaches to managing two-agency relationships

For a business like Naked to succeed, it needs to take revenue from another agency's budget – the media agency has to give up commission, or the creative agency has to give up fees. When the amount of money in the overall pot goes down, this kind of carve-up becomes harder to justify.

And rumours surround the state of some of the agency's global accounts, although Long insists Coca-Cola, Kimberly-Clark, Nokia and Sony remain key global clients.

"They are paying for the same thing twice," Chris Jaques, the M&C Saatchi Asia-Pacific chief executive, says.

"Clients can already get communications planning from a creative or media agency."

Long, as befitting a man who works for the agency that virtually invented the discipline, bristles at the suggestion. "Communications planning is more crowded," he admits. "But most companies have a vested interest in delivery. We don't – our expenditure has a value."

Fighting words. As the economic shadow lengthens, there is more than a whiff of pugilism in the air. Not least because of the WPP chief executive Sir Martin Sorrell's comments that agency "Goliaths" would fare better in the downturn than the "Davids".

Baxter…his exit from Naked Communications has raised questions over the company's long-term expansion

And the principle is similar whatever the discipline – why pay two or more agencies to produce your advertising when one marketing services group does it at a vastly reduced price?

"Where clients have two agencies on the roster – big and small – the work going to the 'David' is drying up," Miles Young, the Ogilvy & Mather global chief executive, explains. "To be blunt, it's the pressure of circumstances on the client – to manage two agency relationships when you can get by with managing one is easier and more cost-effective. This is not a time for luxury – arguably, having a wife and a mistress is a luxury."

After a period when it appeared that the micro-networks could do no wrong, it is hardly surprising to hear their larger peers voice views such as these. One agency source remarks that American Express is "moving away from Crispin Porter & Bogusky in favour of Ogilvy".

Another points out this kind of thinking resulted in Vodafone's recent decision to shift responsibility for global strategic planning out of Bartle Bogle Hegarty to WPP. But the micro-networks, for their part, are not about to take any of this lying down.

"Being a privately owned company means we can afford to take a much longer-term view," Simon Sherwood, the worldwide chief executive at BBH, says. "That takes a huge amount of pressure off us. Most of the holding companies don't have the option of looking beyond the next quarter."

This may be true. But the trend towards "hub and spoke" models – best exemplified by Nokia's decision to appoint Wieden & Kennedy for creative strategy and JWT for global implementation – now looks like it could be at risk from an increased client desire to streamline agencies in order to save cost and time.

"If I was Sorrell, I would go to Nokia and offer the Wieden bit for free," a senior network agency source says. "Even if you think you might lose, you bring that pressure. One thing a bigger agency can do is cut costs if an advertiser rolls in all the business – and that could kill the little guy."

Changing creative needs cannot be ignored either. The M&C Saatchi worldwide chief executive, Moray MacLennan, believes that clients are thinking more tactically. "I've seen more clients focused on short-term returns," he confirms. "I think it can affect the creative boutiques." This, surely, isn't something that anyone would particularly welcome.

Boutique agencies have prospered in recent years, thanks to strong product allied to a generous dollop of cachet. Amid a booming economy, many have taken the opportunity to accelerate expansion plans. The question, now, is whether any of these micro-networks have overstretched themselves?

Already, BBH – an agency that had painstakingly reached seven global offices in 27 years – has scaled back on its Japanese presence. "People underestimate how difficult it is to grow a business," Sherwood says.

"It's very distracting and it's a big management commitment. So I'm not surprised that some of the more recent micro-networks probably do look a bit fragile."

Even if, as some believe, the halcyon era for micro-networks is over, it would take a brave man to bet against agencies that have, in many cases, revolutionised the world of advertising.

"The people who will suffer will be those that don't have a clear point of view about what they offer," Sherwood says. "Lots of clients are looking for creative work to work harder. The agencies that are unable to deliver that will be the ones that suffer."