

[wsj.com](https://www.wsj.com)

# Ad Industry's Digital Upheaval Rocks WPP; Shares Tumble

*Nick Kostov and Stacy Meichtry*

7-8 minutes

---

Advertising's digital upheaval took a heavy toll on [WPP](#) [WPP](#) [-8.33%](#) PLC as the world's largest ad company Thursday logged its worst performance since the financial crisis, triggering jitters among investors across the sector.

On Thursday, WPP said net sales fell 0.9% on a like-for-like basis last year, spooking investors who were expecting signs of recovery after the company cut its forecast three times, predicting a "broadly flat" 2017. The firm also said it is setting budgets for 2018 on the assumption of no growth in revenue and net sales.

WPP shares tumbled 9%, and the fallout quickly spread to rival ad giants like Publicis Groupe SA, which fell 4%.

[Digital disruption is leading](#) Unilever PLC, [Procter & Gamble Co.](#) and other consumer-goods giants that once splurged on ad agency-led campaigns to redirect their spending. That is saddling ad firms with their slowest revenue growth in a decade and pressuring agency holding companies to revamp organizational structures that are out of step with the digital age. Advertisers are

demanding agencies provide services that target consumers relentlessly over the internet as well as coming up with traditional campaigns for print and TV.

“We have to alter our model,” WPP Chairman and Chief Executive Martin Sorrell said in an interview.

Executives like Mr. Sorrell, 73, built the business model that is now being tested. He corralled different Madison Avenue agencies, such as Young & Rubicam and Ogilvy & Mather, into one large holding company while allowing those firms to run independently. Agencies kept their own finances and creative directors called the shots, instructing big clients on how to revamp their brands.

Technological advances, however, have made it easier for clients to cut out the agency middleman, [purchasing online advertising directly from platforms](#) like Facebook Inc. and Google's parent company, Alphabet Inc. Digital technology also eases automation in some areas of the production process, allowing brands to reuse and repurpose their advertising across different media. At the same time, WPP's biggest clients are grappling with upstart rivals, changing consumer tastes and the rise of e-commerce, putting pressure on their marketing budgets.

Ad giants have responded by moving to align the different agencies, cut costs and allow clients to work with advertising staff that was previously siloed. WPP executives often refer to this approach as “horizontality,” while rival Publicis is trying to unite its operations in a restructuring dubbed “The Power of One.” Omnicom Group Inc. has also been pushing to simplify areas like customer relationship management, national brand

advertising and public relations.

This year alone, WPP has announced the merger of its public relations firms Burson-Marsteller and Cohn & Wolfe and said that it would consolidate five of its branding agencies into one. In 2017, it combined its media agencies Maxus and MEC to form Wavemaker; moved its digital agency Possible into its customer-relationship marketing business Wunderman; and created WPP Health & Wellness out of its four large health-care agencies.

“We’re clear on the destination. The changes that are taking place are pushing us to do it faster,” Mr. Sorrell said. “We have to simplify and focus much more on a client and country level.”

The question is whether the big ad companies can evolve fast enough. P&G, long the biggest advertiser in the world, has said that it is looking to cut an additional \$400 million in agency and production costs by 2021, having already saved around a combined \$750 million in recent year. Unilever, meanwhile, has also been slashing agency fees and production costs, in part by reducing the number of traditional ads it makes and bringing more of its marketing work in-house.

Change has been particularly slow in the senior ranks of large ad holding companies. There has been no talk at WPP of Mr. Sorrell stepping down from the company he founded in 1986. His closest rival, Omnicom, is run by 65-year-old Chief Executive John Wren, who has been at the helm for more than two decades. Last year, 76-year-old Maurice Levy stepped aside as chief executive of Publicis, the third-biggest ad company, after a drawn-out process to [choose Arthur Sadoun as his successor](#). Mr. Levy, however, remains chairman of the firm.

Succession questions have dogged WPP for several years as investors have demanded more clarity on the company's plans for life beyond Mr. Sorrell, the only chief executive the company has ever known.

Last June, Deborah Gilshan of Standard Life Investments called on the WPP board to formally set a timetable for "an orderly management succession."

"This remains the key governance risk to our long-term investment in WPP," she said.

As ad giants overhaul their operations—investing in artificial intelligence and engineering talent—they also face pressure to cut more costs to protect margins. WPP reported a 1.3% decline in fourth-quarter organic net sales, a closely watched metric in the industry that excludes currency effects and acquisitions. Analysts expected a 0.7% rise.

In the fourth quarter, organic net sales were down 3.4% in North America, 2.6% in Western Continental Europe and 3% in Asia Pacific. The bright spot was the U.K., which rose 9.1%.

"2017 for us was not a pretty year," Mr. Sorrell said.

WPP's closest competitors have been facing similar headwinds. Publicis posted organic growth of just 0.8% last year, while Omnicom reported lackluster fourth-quarter revenue, blaming a pullback by marketers on one-off projects and losses at some independent-branded agencies. Mr. Wren, Omnicom's CEO, said he expects the company to post softer organic growth this year compared with 2017 due to technological change, shareholder activism and new competitors.

WPP, Publicis and Omnicom have spent the past decade acquiring assets to help them adapt to the online ad business. But many of those investments ended up overlapping with their existing roster of agencies, which had begun developing their own digital skills. The duplication created confusion for clients seeking clarity about how to operate in the digital ad world.

Mr. Sorrell said during WPP's earning presentation in London on Thursday that the company is navigating the disruption by partnering with Google, Facebook and Alibaba Group Holding Ltd. Similarly, WPP has also been appointed by clients such like Nestlé SA and HSBC Holdings PLC to work on digital transformation projects, according to the company's investor presentation.

—Lara O'Reilly contributed to this article.

**Write to** Nick Kostov at [Nick.Kostov@wsj.com](mailto:Nick.Kostov@wsj.com) and Stacy Meichtry at [stacy.meichtry@wsj.com](mailto:stacy.meichtry@wsj.com)