Digital advertising agencies are built for the Internet age

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Old notions of advertising are being scrambled on the Westside, inside boutique agencies with names like Blitz, Ignited and Omelet.

The hot shops are pushing big-brand clients beyond the familiar confines of radio, television, magazines and newspapers and onto the Internet, smartphones, game consoles and tablets.

With more than 42 percent of the country's TV homes equipped with digital video recorders, which allow users to fast-forward through commercials, and some younger viewers leaving TV altogether, advertisers are rushing to build Internet infrastructures, create Web videos and funnel content to social media sites such as Facebook, Twitter and Pinterest.

It's a boom-time business. Ten years ago, companies spent an estimated $6 billion advertising their products and services online, according to eMarketer, which tracks advertising dollars. This year, that number is expected to reach $39.5 billion. Within five years, it could top $60 billion.

It's not that advertisers are abandoning TV. Last year they spent $68 billion on television commercials, and in two weeks last month they placed orders for $9.1 billion worth of prime-time network spots. But marketers recognize that affluent and younger consumers are as likely to be found glued to their cellphones or the Internet as the TV screen.

At the end of a crowded cul-de-sac in Culver City, Calif., more than a dozen young workers cluster around common tables in a warehouse. A makeshift sign on the door reads: Omelet.

"We were at this diner ... eating omelets, and thought, 'Why not?' " company co-founder Ryan Fey said. "We didn't want to take ourselves too seriously."

"And you've got to break some eggs to make an omelet," co-founder Steven Amato added.

Omelet's founders met a decade ago while working at Los Angeles' leading ad agency TBWAChiatDay, just as the Internet was becoming a viable vehicle for advertising. Amato, 39, was a former playwright turned ad copywriter from Connecticut. Fey, 36, was an Ohio native who started his career as a page for "Late Night With David Letterman," then worked as a music writer for Spin magazine before joining a large ad agency in New York.

Over months of breakfasts at Nichols diner in Marina del Rey, Calif., they plotted how to create their own "storytelling" firm built for the Internet age. The pair and a third co-founder, Shervin Samari, each chipped in $200, which covered one month of office rent.

The agency opened in 2004 and quickly made a splash with silly spoofs created for Coffee Bean and Tea Leaf. "Mascot Roommate," featuring a man in an oversized iced-coffee costume, notched more than 1 million views and spawned sequels, including one so effective that CNN's Headline News aired it as the real thing and wondered on the air whether the coffee chain would fire the out-of-control mascot.

This year Omelet is on track to triple its 2011 revenue of $23 million. The firm, which has about 45 full-time employees - only two over the

age of 40 - has created ads for AT&T Inc., Harley-Davidson Inc., HBO, Microsoft Corp. and NBCUniversal. It designed Internet advertising campaigns and television spots for the Academy of Motion Picture Arts and Sciences. Earlier this year it won a large account with Wal-Mart Stores Inc.'s corporate headquarters.

Omelet has company. El Segundo, Calif.-based Ignited exploded onto the scene 13 years ago.

The digital agency now boasts 120 employees and has annual billings of nearly $140 million. The firm, which specializes in Internet display ads, occupies a 55,000-square-foot warehouse that previously hosted a short-lived Internet incubator set up by former basketball star Shaquille O'Neal. Its clients include NBCUniversal, Sony Corp. and Zico coconut water.

"The dollars are clearly shifting this way," said Eric Johnson, Ignited's founder and president.

A former top executive at the video game company Activision, Johnson recognized more than a decade ago that young people - particularly young male gamers - were consuming much of their media through nontraditional channels. He figured that eventually mainstream audiences would become heavy Internet users and that established ad agencies would be slow to respond. He was right.

"There has been a fundamental shift in behavior that is shaking the underpinnings of the whole media and marketing industry," Johnson said. "Everything needs to be digitally connected."

One of Ignited's first clients was the U.S. Army, which needed a new way to inspire potential recruits. In 2001, Johnson's firm helped create "America's Army," an Internet video game that turned the adrenaline

rush of simulated combat into a recruitment tool.

The game was downloaded 12 million times, Johnson said. "It was a watershed marketing experience."

Now the challenge is to stand out amid the clutter. Sixty years ago, consumers were exposed to about 100 brand impressions a day.

"Today, the average person sees between 1,500 and 2,000 brand impressions a day: company logos, commercials and billboards," Johnson said.

The digital revolution has created a bounty of business for another agency - Blitz Digital Studios, which sits above the Third Street Promenade in Santa Monica, Calif.

Google, Nike Inc., Naked Juice Co., Microsoft, Walt Disney Co. and Warner Bros. Entertainment have commissioned Blitz to customize visually rich Internet campaigns full of motion and interactive elements. One campaign for Hilton Hotels attracted more than 1 million viewers and prompted more than 50,000 people to send Hilton e-cards.

Blitz also created an "augmented reality music video" to promote a new album from singer-songwriter John Mayer. The 3-D video resembled a children's pop-up book, with Mayer morphing into a guitar-playing, computer-animated character in a video game world.

Blitz currently is working on a digital application for the Irish rock band U2.

"Digital today, in almost every way, is woven into the fabric of how we communicate with others," said Ivan Todorov, chief executive of Blitz. "Brands and savvy marketers recognize that they need a digital

presence."

The 10-year-old Blitz has been on a hiring binge, snapping up prominent executives from established ad agencies to round out its roster of more than 100 online ad experts. Revenue last year exceeded $16 million.

Last fall, when Whole Foods Market Inc. wanted to find ways to engage customers by sharing stories of the artisans and farmers who supply food for the chain, it turned to the Gen-X crew at Omelet.

"They were cool, not all L.A. flashy," said Andi Dowda, Whole Foods' regional marketing coordinator. "They didn't come in wearing suits telling me what I should do; they listened and tried hard to understand our business goals."

The result was a series of mini-documentaries for Whole Foods' in-store monitors, Facebook page and website. The Omelet team interviewed organic turkey growers in Sanger, Calif., and oyster farmers in Morro Bay, Calif.

"We haven't put a lot of adverting dollars behind these, but they have real appeal," Dowda said. "And younger people are much more drawn to these online stories than they would be for a TV commercial."

Online video has become the fastest growing piece of the overall Internet advertising pie. Ten years ago, advertisers spent $48 million creating online videos, according to eMarketer. By 2009, the expenditure had swelled to $1 billion and is expected to top $3 billion this year.

Now Omelet is expanding beyond the Internet. This spring it launched Omelet to Go, which designs and stages live marketing events.

HBO hired the firm to generate a presidential-like motorcade, complete

with actors posing as Secret Service agents, to promote the launch of the cable network's new series "Veep."

"These worlds are slamming together faster than anyone realized that they would, and the shift is undeniable," Omelet's Fey said. "But convergence is done. Brands are online; they are in mobile. Now it's all how you develop technology and apply it."

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