Advertising Industry Overview

Advertising and Marketing Communications Agencies

Introduction:

Advertising is a form of communication that typically attempts to persuade potential customers to purchase or to consume more of a particular brand of product or service than competing brands or services – or if the advertising is not on behalf of a brand but for instance a public service – to change their behaviour.

Modern advertising developed with the rise of mass production in the late 19th and early 20th centuries and has now developed as an essential part of influencing behaviour – across a wide spectrum of interest groups.

Many advertisements are designed to generate increased consumption of those products and services through the creation and reinvention of a “brand image”. For these purposes, advertisements sometimes embed their persuasive message with factual information. Every major medium is used to deliver these messages, including television, radio, cinema, magazines, newspapers, video games, the internet, direct mail, billboards, outdoor posters and sponsorship (the list is getting longer as new media are developed).

Advertising is often placed in these media by an advertising agency acting on behalf of the client company or other organization, therefore they are acting as agents.

Organizations that frequently spend large sums of money on advertising that sells what is not, strictly speaking, a product or service include policial parties, government departments, interest groups, religious organisations, non-profit organisations and charities. However, just like brands they are competing for the consumer’s attention – if not to consume a product – to influence their behaviour.
Money spent on advertising has increased dramatically in recent years. In 2007, spending on advertising has been estimated at over $150 billion (£100 bn in the United States and $385 billion worldwide (£257 bn). While there might have been a decline in the recessionary years, it is predicted that spending on advertising will exceed $450 billion (£300 bn) after 2010.

While advertising can be seen as necessary for economic growth, it is not without social costs. Unsolicited commercial email and direct mail have become prevalent.

**Some Definitions:**

Advertising and Marketing communications agencies use their knowledge, skills, creativity and experience on behalf of their clients to drive consumption of their brands.

These brands may be consumer brands e.g. Coca Cola, Nike and Mercedes Benz or business-to-business (b2b) brands e.g. IBM, Harvard Business School and KPMG.

Some brands target both consumers and businesses e.g. Microsoft, Kodak, Apple.

Some brands may be charities or public services e.g. Cancer Research, Oxfam or the UK National Health Service.

In markets where products and services are largely perceived as commodities, or strong emphasis is given to technical specifications and price, given that all other things are equal (e.g., delivery time, etc.), a strong brand identity may be the single characteristic that differentiates a product from market competitors.
Functions of Advertising and Marketing Communications Agencies

Agencies come in all sizes and include everything from one or two-person operations (which rely mostly on freelance talent to perform most functions), small to medium sized agencies, large independents, and multi-national, multi-agency conglomerates such as Omnicom Group, WPP Group, Publicis, Interpublic Group of Companies and Havas.

Most agencies include the following functions:

- Advertising – generalist or specialist
- Media Planning and Buying
- Research and Insight Consultancy – brand research, consumer research, media research and marketplace research
- Public Relations (PR) – corporate public relations, lobbying
- Branding and Identity – consumer and corporate branding including identity, packaging, literature, events and training
- Direct Marketing (Promotion and Relationship Marketing) – This includes the full range of general and specialist customer, channel, direct, field, retail, promotional and point-of-sale services.
- Specialist Communications - A range of specialist services that target specialist groups and/or use specialist media to reach these groups.

Advertising agencies’ role

The role of an advertising agency is to work with clients to:

- Develop their brand / marketing communication strategy
- Use their creative skills to encompass this in effective advertising and communication
- Recommend media that effectively targets chosen consumer segments
Who are their clients?
Advertising agency customers - known as clients - can range in size from the largest companies in the world to small local businesses.

How powerful are they?
A client’s power is generally in direct proportion to the size of their advertising budget. They have strong bargaining power and can change advertising agencies relatively easily, say with six months – or in some instances – even less notice. Advertising agencies rely either on their creative reputation, buying power or range and quality of services to try and re-dress the balance of power.

Suppliers to the Advertising agencies
Advertising agencies act as custodians of a clients marketing budget and besides creating advertisements, they buy a range of services on behalf of their clients. These services will include: media, film, radio and TV production, research, print, direct mail, sponsorship.

Agencies with a large number of clients with large budgets have bargaining power with these suppliers and can negotiate better deals for their clients, thus enhancing their reputation with their clients.

How are advertising agencies compensated for their services?
Billable hours spent on creating advertising– and commission on media and services bought on behalf of its clients by advertising agencies - have been the standard way of compensation since the 1970s.

However, in recent years, larger advertisers such as Coca Cola and Procter & Gamble have been moving away from this compensation model to a “value” model based on a number of metrics, including sales and market share. For more details on this, please see the section headed “Agency Compensation Models”.

Advertising agency departments
Most larger agencies include the following functional departments:

Creative Department
The people who create the actual ads form the core of an advertising agency. Modern advertising agencies usually form their copywriters and art directors into creative teams. Creative teams may be permanent
partnerships or formed on a project-by-project basis. The art director and copywriter report to a creative director, usually a creative employee with several years of experience. Although copywriters have the word "write" in their job title, and art directors have the word "art", one does not necessarily write the words and the other draw the pictures; they both generate creative ideas to represent the proposition (the advertisement or campaign's key message). Creative departments frequently work with outside design or production studios to develop and implement their ideas. Creative departments may employ production artists as entry-level positions, as well as for operations and maintenance.

**Account Service/Management**

The other major department in ad agencies is *account services* or *account management*. Account Services or account management is somewhat the sales arm of the advertising agency. An account executive (one who works within the account services department) meets with the client to determine sales goals and creative strategy. They are then responsible for coordinating the creative, media, and production staff behind the campaign. Throughout the creative process, they keep in touch with the client to update them on the ad's progress and gain feedback. Upon completion of the creative work, it is their job to ensure the ad's production and placement.

**Creative Services 'Production'**

The *Creative Services* Production department may not be so well known, but its employees are the people who have contacts with the suppliers of various creative media. For example, they will be able to advise upon and negotiate with printers if an agency is producing flyers for a client. However, when dealing with the major media (broadcast media, outdoor, and the press), this work is usually outsourced to a media agency which can advise on *media planning* and is normally large enough to negotiate prices down further than a single agency or client can.

Modern agencies might also have a media planning department integrated, which does all the spot's planning and placements.

**Traffic**

An often forgotten, but still very important, department within an advertising agency is traffic. The traffic department regulates the flow of
work in the agency. It is typically headed by a traffic manager (or system administrator). Traffic increases an agency’s efficiency and profitability through the reduction of false job starts, inappropriate job initiation, incomplete information sharing, over- and under-cost estimation, and the need for media extensions. In small agencies without a dedicated traffic manager, one employee may be responsible for managing workflow, gathering cost estimates and answering the phone, for example. Large agencies may have a traffic department of ten or more employees.

Most **Full-Service Agencies** work on a combination of fee-based and commission based compensation. The fee is paid by the client for whom the marketing is being done. The commission is a payment from the media to the agency and is usually equal to 15% of the cost of the advertisement. The broadcast media, radio and television, traditionally pay a commission.

In the early part of the 21st century **Interactive Agencies & Digital Media** rose to prominence before the traditional advertising agencies fully embraced the Internet. Interactive Agencies & Digital Media may differentiate themselves by offering a mix of Web Design/Development, Search Engine Marketing, Internet Advertising/Marketing, or E-Business/E-Commerce consulting. Today, the most successful interactive agencies are defined as companies that provide specialised advertising and marketing services for the digital space. The digital space is defined as any multi-media enabled electronic channel that an advertiser's message can be seen or heard from. The 'digital space' translates to the Internet, Kiosks, CD-ROMs, DVDs, and Lifestyle Devices (iPad, PSP, and Mobile). Interactive Agencies function similarly to advertising agencies, although they focus solely on interactive advertising services. They deliver services such as strategy, creative, design, video, development, programming (Flash and otherwise), deployment, management, and fulfillment reporting. Often, Interactive Agencies provide: Digital Lead Generation, Digital Brand Development, Interactive Marketing and Communications Strategy, Rich Media Campaigns, Interactive Video brand experiences, Web 2.0 website design and development, e-Learning Tools, email marketing, SEO/SEM services, PPC Campaign Management, Content Management Services, web application development, and overall Data Mining & ROI Assessment.

**Tradigital agencies** are advertising agencies who are experts in both traditional and digital advertising. They offer the best of both worlds and
are very useful in today’s digital age where campaigns require both online and above-the-line advertising.

Lately, Search Engine Marketing (SEM) and Search Engine Optimization (SEO) firms have been classified by some as 'agencies' because they create media and implement media purchases of text based (or image based, in some instances of search marketing) ads. This relatively young industry has been slow to adopt the term 'agency', however with the creation of ads (either text or image) and media purchases, they do technically qualify as 'advertising agencies'. Recent studies suggest that both SEO and SEM are set to outpace more traditional channels of media spending over the next 3-5 years.

The recent boost in Interactive Agencies can also be attributed to the rising popularity of web-based social networking and community sites such as MySpace, Facebook and YouTube. Some Interactive Agencies have started offering personal and corporate community site development as one of their service offerings.

**Media Buying Services**

*Media Buying Services* are provided by media specialists who are individuals responsible for purchasing time and advertising space for the purpose of advertising. When planning what to buy, they must evaluate factors based on, but not limited to, station formats, pricing rates, demographics, geographic, and psychographics relating to the advertisers particular product or service objectives. The Media Buyer needs to optimise what is bought and that is dependent on budget, type of medium (radio, internet, TV, print), quality of the medium (target audience, time of day for broadcast, etc.), and how much time and space is wanted. Media Buyers can purchase spot, regionally, or nationally. National Media Buyers might have to factor in determinates based on a region or state by state basis. Rates, demand of leads, space, and time will vary from by locality. National Media Buyers need National Media Planning to generate National Media Marketing strategies and National Media Advertising that can be adapted locally but also works on a national level.

**Research & Insight Consultancy**

*Research & Insight consultancy* is essentially market research where strategically-focussed consultants interpret research data and give
insights into future consumer and market developments and help with
marketing and brand strategy.

The term insight is fashionable in that it indicates the way in which
research companies have tried to add value to their business proposition
by understanding the underlying values, beliefs and motivations that
drive consumer behaviour and consequent current and future spend on
consumer brands.

Public Relations (PR)

Public Relations (PR) is the practice of managing the flow of information
between an organisation and its Public. Public Relations - often referred to
as PR - gains an organisation (or an individual) exposure to their audience
using topics of public interest and news items that do not require direct
payment in order to get media space.

Because PR places exposure in credible third-party outlets, it offers a
third-party legitimacy that advertising does not have. Common PR
activities include speaking at conferences, working with the press, and
employee communication.

PR can be used to build rapport with employees, customers, investors,
voters, or the general public. Almost any organisation that has a stake in
how it is portrayed in the public arena employs some level of public
relations. A number of specialties exist within the field of public relations,
such as Media Relations, Investor Relations or Labour Relations

Lobbying is a branch of public relations, which specialises in the practice
of influencing decisions made by governments. It includes all attempts to
influence legislators and officials, whether by other legislators,
constituents or organised groups. Governments often regulate organised
group lobbying.

Branding & Identity

Branding & Identity is a type of marketing which specialises in creating
and launching brands as well as rebranding. Branding agencies create,
plan and manage branding strategies. Branding agencies may also handle
advertising and other forms of promotion. Like advertising agencies,
typical branding agency clients come from all sectors including businesses and corporations, non-profit organisations and government agencies. Branding agencies may be hired to produce a brand strategy or, more commonly, a brand identity, which can then be outputted via a branding campaign, which is a type of marketing campaign.

**Direct Marketing**

Direct Marketing is a sub-discipline and type of marketing. There are two main definitional characteristics which distinguish it from other types of marketing. The first is that it attempts to send its messages directly to consumers, without the use of intervening media. This involves commercial communication (direct mail, e-mail, telemarketing) with consumers or businesses, usually unsolicited. The second characteristic is that it is focused on driving purchases that can be attributed to a specific "call-to-action." This aspect of direct marketing involves an emphasis on trackable, measurable positive (but not negative) responses from consumers (known simply as "response" in the industry) regardless of medium.

If the advertisement asks the prospect to take a specific action, for instance call a free phone number or visit a website, then the effort is considered to be direct response advertising.

**Mail Handling Services** is a down stream support function within Direct Marketing consisting of letter printing and personalising from large databases, envelope manufacture and printing, insertion, collation and bulk despatch locally or internationally.

**Relationship Marketing / CRM**

Relationship marketing / CRM is a form of marketing developed from direct response marketing campaigns conducted in the 1970's and 1980's which emphasised customer retention and satisfaction. Relationship marketing differs from other forms of marketing in that it recognises the long term value to the firm of keeping customers, as opposed to direct or "Intrusion" marketing, which focuses upon acquisition of new clients. The Relationship Marketing or CRM agency works with clients to help them retain existing customers rather than find new ones.
Customer relationship management (CRM) is a term applied to processes implemented by a company to handle its contact with its customers. CRM software is used to support these processes, storing information on current and prospective customers. Information in the system can be accessed and entered by employees in different departments, such as sales, marketing, customer service, training, professional development, performance management, human resource development, and compensation. Details on any customer contacts can also be stored in the system. The rationale behind this approach is to improve services provided directly to customers and to use the information in the system for targeted marketing and sales purposes.

While the term is generally used to refer to a software-based approach to handling customer relationships, most CRM software vendors stress that a successful CRM strategy requires a holistic approach. CRM initiatives often fail because implementation was limited to software installation without providing the appropriate motivations for employees to learn, provide input, and take full advantage of the information systems.

**Specialist Communications**

*Specialist Communications* - A range of specialist services, which might include custom media and multicultural marketing to event, sports, youth and entertainment marketing; corporate and business-to-business; media, technology and production services.

**The Competitive Landscape**

**Multi-agency conglomerates**

The **Omnicom Group** (NYSE: OMC) is one of the world's largest advertising agency holding companies in terms of revenue and one of the "Big 6" advertising holding companies. Its major holdings include the advertising agency networks BBDO, TBWA Worldwide, and DDB Worldwide. Its portfolio of companies also includes public relations, lobbying, marketing services, interactive design, CRM specialists and media buying services.

Omnicom's specialty marketing and public relations agency holdings are managed by its Diversified Agency Services division. Among Omnicom's

Find out more by following these links:

http://biz.yahoo.com/ic/14/14326.html

http://www.omnicomgroup.com

**WPP Group plc** (LSE: WPP) (NASDAQ: WPPGY), based in London, United Kingdom, is the world’s largest communications services group. Its self-conceived characterisation is a "parent company," able to bring together the right combination of capabilities to serve a client's analytic and creative brand marketing needs. It is listed on the London Stock Exchange and is a constituent of the FTSE 100 Index.

Wire and Plastic Products plc was founded in 1971 making wire shopping baskets. In 1985 Martin Sorrell, searching for a listed company through which to build a worldwide marketing services company, bought a controlling stake of just under 30% at a cost of $676,000. The holding company was renamed WPP Group and in 1987 Sorrell became its chief executive.

Sorrell had been the financial director for the advertising agency Saatchi and Saatchi from 1977 to 1985, managing its takeovers of companies in the US and the UK. In 1987 the Company acquired J. Walter Thompson (including JWT, Hill & Knowlton and MRB Group) for $566m.

The Company was first listed on the NASDAQ in 1988. In 1989 it acquired Ogilvy Group for $864m and in 1998 formed an alliance with Asatsu-DK Inc. of Japan.

Find out more by following these links:

http://www.wpp.com/WPP/About/WPPAtAGlance

http://finance.google.com/finance?q=WPPGY
The **Interpublic Group of Companies, Inc. (IPG)** (NYSE: IPG) is one of the big four global advertising holding companies (the others being Omnicom, WPP and Publicis). It is headquartered in New York City and is the parent company of Universal McCann media agency and McCann-Erickson, one of the largest agency networks in the world.

IPG was created in 1960 as the first marketing services management holding company, with McCann-Erickson and McCann-Marschalk as its two subsidiaries. Since then, it has grown tremendously, with over 185 companies purchased in a two-year span from 1999 to 2001. Comparisons have been made to AOL Time Warner, as both are media conglomerates that have trouble managing their holdings. The advertising firm Campbell-Ewald is also a subsidiary of IPG.

Find out more by following these links:

http://www.interpublic.com/

http://finance.yahoo.com/q?s=IPG

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**Publicis Groupe** (Euronext: PUB, NYSE: PUB) is a French multinational advertising and communications company. It is one of the big four global advertising holding companies. It provides traditional advertising, media services, and specialised agencies and marketing services (SAMS) to national and multinational clients. Its traditional advertising services principally involve the creation of advertising for products, services, and brands. It also includes strategic planning involving analysis of a product, service, or brand compared to its competitors through market research, sociological and psychological studies, and creative insight. The company was founded by Marcel Bleustein-Blanchet in 1926 and is headquartered in Paris, France.

http://www.publicisgroupe.com/site/index.jsp?language=EN

http://uk.finance.yahoo.com/q?s=PUB.PA&d=t
**Mid-range and Boutique Agencies**

The above should give you a flavour of the big players in this industry. To get a feel of the smaller “boutique” agencies follow the link to Wikipedia [http://en.wikipedia.org/w/index.php?title=Special:Search&search=advertising+boutique+agencies&fulltext=Search&ns0=1&redirs=0](http://en.wikipedia.org/w/index.php?title=Special:Search&search=advertising+boutique+agencies&fulltext=Search&ns0=1&redirs=0)

Or do a search on-line for advertising and marketing communications boutique agencies.

**Basis of Competition**

Competition within the industry is fierce based on creative ability, range and breadth of services and market insight. Large multi-nationals compete on the basis of the quality of their creative teams, breadth and range of services, economies of scale in areas such as direct marketing, understanding of markets and global reach.

Smaller boutique agencies survive and prosper by delivering value-added services through in-depth knowledge of certain sectors or markets, highly specialised services such as digital or by building a reputation for innovative and ground-breaking creative advertising/marketing campaigns. Many small agencies spin out off defectors from the large agencies while, in turn, smaller agencies are often acquired by the large multi-nationals in order to acquire specific capabilities to target new sectors or markets or provide additional services to existing clients.

**Advertising Industry Lifecycle and new trends**

While overall growth in the advertising industry is predicted, sectors of the industry appear to be in a mature phase with traditional media such newspaper advertising revenue falling in the US and the rise of digital media and search engines such as Google and Yahoo.

This has meant that both media owners and advertising agencies have had to take this into account and think carefully about their strategy.
With the dawn of the internet came many new advertising opportunities. Popup, Flash, banner, Popunder, advergaming, and email advertisements (the last often being a form of spam) are now commonplace.

The ability to record shows on digital video recorders (such as TiVo) allow users to record the programs for later viewing, enabling them to fast forward through commercials. Additionally, as more seasons of pre-recorded box sets are offered for sale of television programs; fewer people watch the shows on TV. However, the fact that these sets are sold, means the company will receive additional profits from the sales of these sets. To counter this effect, many advertisers have opted for product placement on TV shows.

Particularly since the rise of "entertaining" advertising, some people may like an advertisement enough to wish to watch it later or show a friend. In general, the advertising community has not yet made this easy, although some have used the Internet to widely distribute their ads to anyone willing to see or hear them.

Another significant trend regarding future of advertising is the growing importance of the niche market using niche or targeted ads. Also brought about by the Internet and the theory of The Long Tail, advertisers will have an increasing ability to reach specific audiences. In the past, the most efficient way to deliver a message was to blanket the largest mass market audience possible. However, usage tracking, customer profiles and the growing popularity of niche content brought about by everything from blogs to social networking sites, provide advertisers with audiences that are smaller but much better defined, leading to ads that are more relevant to viewers and more effective for companies' marketing products.

Among others, Comcast Spotlight is one such advertiser employing this method in their video on demand menus. These advertisements are targeted to a specific group and can be viewed by anyone wishing to find out more about a particular business or practice at any time, right from
their home. This causes the viewer to become proactive and actually choose what advertisements they want to view.

In the realm of advertising agencies, continued industry diversification has seen observers note that “big global clients don't need big global agencies any more”. This trend is reflected by the growth of non-traditional agencies in various global markets, which have been referred to as "a revolution in the ad world".

**Agency Compensation Models - How do advertising agencies make money?**

Some industry leaders, say the advertising industry has been approaching and avoiding a change in how it is paid for many years. Avoidance, however, may no longer be an option. In early 2009, Coca-Cola said it would adopt a “value-based” compensation system for the advertisers that do work for its 400 brands. Rather than paying advertising agencies for hours worked, Coke will pay for results achieved.

Billable hours spent on creating advertising– and commission on media and services bought on behalf of its clients by advertising agencies - have been the standard way of compensation since the 1970s. Assessing a campaign’s value is much harder.

Coke, however, thinks it can do just that. Its new model guarantees to cover advertising agencies’ costs, plus a bonus of up to 30%. The bonus depends on a number of metrics, including the agency’s overall performance, and the sales and market share of the products being advertised. Coke insists that its aim is not to cut costs but to inspire creativity and efficiency. Procter & Gamble, a consumer-goods giant which has also ditched hourly fees in favour of performance-related fees for 12 of its brands, says the same thing.
What is it worth? Although the recession may give companies an immediate reason to reassess how they pay their advertising agencies, it is not the sole impetus for the switch. Discussions about finding better ways to reward agencies for their creativity have been going on for years. The American Association of Advertising Agencies estimates that about 10% of compensation agreements are value-based. Coke’s announcement of its new approach will probably spur other firms to follow suit, and Coke has said that it wants its model to become the standard for the industry.

The shift away from the billable hour, however, may take a while. Some agency executives are sceptical about being paid for value, because it is so subjective. They interpret talk about value as code for cost-cutting. Jeff Goodby, co-founder of Goodby, Silverstein & Partners, an advertising agency, dislikes the fact that Coke’s new policy guarantees only recouped costs. If he is going to take on a project in which he assumes risk by not knowing his profit margin in advance, “There has to be a big pot at the end of that rainbow,” he says.

But some advertising agencies have voluntarily moved away from billing by the hour and towards contracts that reward value. Jeff Hicks, chief executive of Crispin Porter + Bogusky, says this approach has helped his agency work more closely with clients by aligning the agency’s compensation and the advertiser’s profitability. Others, sensing the limitation of being paid by the hour, are trying to develop new ways to capture the value their work can create. For example, BBH recently launched a unit, called Zag, which designs and markets its own products, such as ready-made foods.

Advertising is not the only industry where there is discussion about whether to pay for time or results. Some accounting, consulting and law firms are also scrapping the billable hour, often at the request of their clients. Ron Baker, author of “Pricing on Purpose”, a book on pricing strategies, thinks service agencies need to grasp that they sell ideas, not time, and that ideas should be generously compensated. Imagine, he says, if J.K. Rowling had been paid by the hour to write about Harry Potter.