

Organizing for Advertising and Promotion: The Role of Ad Agencies and Other Marketing Communication Organizations

3

Chapter Objectives

1. To understand how companies organize for advertising and other aspects of integrated marketing communications.
2. To examine methods for selecting, compensating, and evaluating advertising agencies.
3. To explain the role and functions of specialized marketing communications organizations.
4. To examine various perspectives on the use of integrated services and responsibilities of advertisers versus agencies.

Madison Avenue Goes Hollywood

In the spring of 2000, the creative group at the Fallon Worldwide agency assigned to the BMW North America account was in the process of developing a new branding campaign for the German automaker. Both the BMW and Fallon people were becoming increasingly concerned

As the creative team worked to develop a new branding campaign for BMW, concern over the effectiveness of traditional media advertising and curiosity over how to exploit the popularity of the Internet among car buyers were two key factors they were considering. Another creative team at Fallon had recently completed a campaign for Timex that incorporated an Internet element by featuring short video clips developed specifically for the Web. So the idea emerged of doing something for the Web that would be not only entertaining but also cinematic. However, the associative creative director for the BMW group at Fallon noted that the goal was to do a different level of web film—one that by its very nature would call attention to itself and could be promoted like regular films.



with their ability to reach their core market of overachieving, hard-working consumers via traditional methods such as network television. BMW had done three different campaigns recently emphasizing responsive performance with product-focused ads designed to show what it's like behind the wheel of a BMW. However, from the perspective of both the client and the agency, the look and feel of the ads had begun to be copied by competitors and wannabes, making them less distinctive than before. Meanwhile, their research indicated that many Bimmer buyers were tech-savvy and had fast, reliable access to the Internet; most importantly, 85 percent of them had researched their car purchase on the Web before stepping into a dealer showroom.

The agency took the web film concept to Anonymous Content, a Hollywood production company, where director David Fincher is a partner. Fincher took the original concept for a longer film that would be shot in segments and suggested instead a series of stand-alone shorts, each directed by a marquee name. He also came up with the idea for a central character, the Driver, played by young British actor Clive Owen, who appears in all the films as a James Bond-type driver who takes such costars as Madonna, Mickey Rourke, and Stellan Skarsgaard for the ride of their lives in a BMW.

The series of five- to seven-minute films created by Fallon and Anonymous Content is called "The Hire," and the films have been directed by big names such as Ang Lee, John Franeheimer,

and Guy Ritchie. The most popular film in the series was Ritchie's seven-minute short called "Star," which starred his wife, Madonna, portraying a spoiled pop diva who is taken on a wild ride to her hotel in a BMW 540i by the hired driver. Each film shows a different BMW model pushing the envelope of performance by showing what the car can do in extreme conditions and situations that could never be conveyed in a traditional TV commercial.

A special website, BMWFilms.com, was created to show the five films in "The Hire" series. The site also includes five "substories," which are two-minute vignettes that introduce additional characters, as well as a behind-the-scenes look at how the films were made, interviews with the stunt drivers, and commentaries by the directors on their individual shoots. Fallon also created an integrated campaign to drive consumers to the website that included television, print and Internet ads, viral marketing efforts, and an aggressive public relations effort. "The Hire" film series has been singled out as the first high-profile, big-budget, celebrity-laden marriage of advertising and entertainment. Since its launch in April 2001, more than 13 million people have logged on to BMWFilms.com to view the five films in the series, and its success prompted BMW to commission three new films, which debuted in fall 2002.

BMW Films was awarded the Super Reggie Award in 2002 by the Promotion Marketing Association (PMA) for the best promotional campaign. The PMA director noted: "BMW Films has truly established a creative benchmark in integrated and interactive promotions, allowing consumers to interact with the BMW name on their own terms. The promotion helped drive increases in brand measures and dealership visits as well as vehicle sales numbers." The film series also won the Cyber Grand Prix award at the 2002 Cannes

Advertising Festival for the best online marketing campaign.

BMW is not the only marketer that has turned to the *advertainment* genre to promote its products. Skyy Vodka, which has a history of support for independent filmmakers and film festivals, was one of the first companies to use the genre, with its "Skyy Short Film Series." The three short films, which were created by the company's ad agency Lambesis, also used top directors and talent including model-actress Claudia Schiffer and Dian Merrill. The short films, which are featured on the "Skyy Cinema" section of the company's website, are seen as a way to build its brand image with its primary target audience of young, technologically savvy adults. Bartle Bogle Hegarty, a London agency, has also created short films for several clients including Levi's jeans and Microsoft's Xbox video game. The long-form ad for the Xbox, called "Champagne," shows a baby being shot out of a window at birth and morphing into old age and has been downloaded more than 4 million times.

Experts note that these digital short films signal the way toward the long-awaited convergence of television and the personal computer. They note that other technological developments such as the personal video recorder, digital cable, and satellite TV will allow consumers to watch what they want when they want to and this will change how they relate to advertisers. Thus, advertisers and their agencies will continue to use the short-film advertainments as a way to make their messages more compelling and to encourage consumers to actually choose to view their ads rather than avoid them.

Sources: Michael McCarthy, "Ads Go Hollywood with Short Films," *USA Today*, June 20, 2002, p. 3b; Anthony Vagno, "Behind the Wheel," *Advertising Age*, July 23, 2001, pp. 10, 12; Benny Evangelista, "Marketers Turn to Web Films to Push Their Products," *San Francisco Chronicle*, July 23, 2001, p. E2.

Developing and implementing an integrated marketing communications program is usually a complex and detailed process involving the efforts of many persons. As consumers, we generally give little thought to the individuals or organizations that create the clever advertisements that capture our attention or the contests or sweepstakes we hope to win. But for those involved in the marketing process, it is important to understand the nature of the industry and the structure and functions of the organizations involved. As can be seen from the opening vignette, the advertising and promotions business is changing as marketers search for better ways to communicate with their customers. These changes are impacting the way marketers organize for marketing communications, as well as their relationships with advertising agencies and other communication specialists.

This chapter examines the various organizations that participate in the IMC process, their roles and responsibilities, and their relationship to one another. We discuss how companies organize internally for advertising and promotion. For most companies, advertising is planned and executed by an outside ad agency. Many large agencies offer a variety of other IMC capabilities, including public relations, sales promotion, and direct marketing. Thus, we will devote particular attention to the ad agency's role and the overall relationship between company and agency.

Other participants in the promotional process (such as direct-response, sales promotion, and interactive agencies and public relations firms) are becoming increasingly important as more companies take an integrated marketing communications approach to promotion. We examine the role of these specialized marketing communications organizations in the promotional process as well. The chapter concludes with a discussion of whether marketers are best served by using the integrated services of one large agency or the separate services of a variety of communications specialists.

Before discussing the specifics of the industry, we'll provide an overview of the entire system and identify some of the players. As shown in Figure 3-1, participants in the integrated marketing communications process can be divided into five major groups: the advertiser (or client), advertising agencies, media organizations, specialized communication services, and collateral services. Each group has specific roles in the promotional process.

The advertisers, or **clients**, are the key participants in the process. They have the products, services, or causes to be marketed, and they provide the funds that pay for advertising and promotions. The advertisers also assume major responsibility for developing the marketing program and making the final decisions regarding the advertising and promotional program to be employed. The organization may perform most of these efforts itself, either through its own advertising department or by setting up an in-house agency.

However, many organizations use an **advertising agency**, an outside firm that specializes in the creation, production, and/or placement of the communications message and that may provide other services to facilitate the marketing and promotions

Participants in the Integrated Marketing Communications Process: An Overview

Figure 3-1 Participants in the integrated marketing communications process

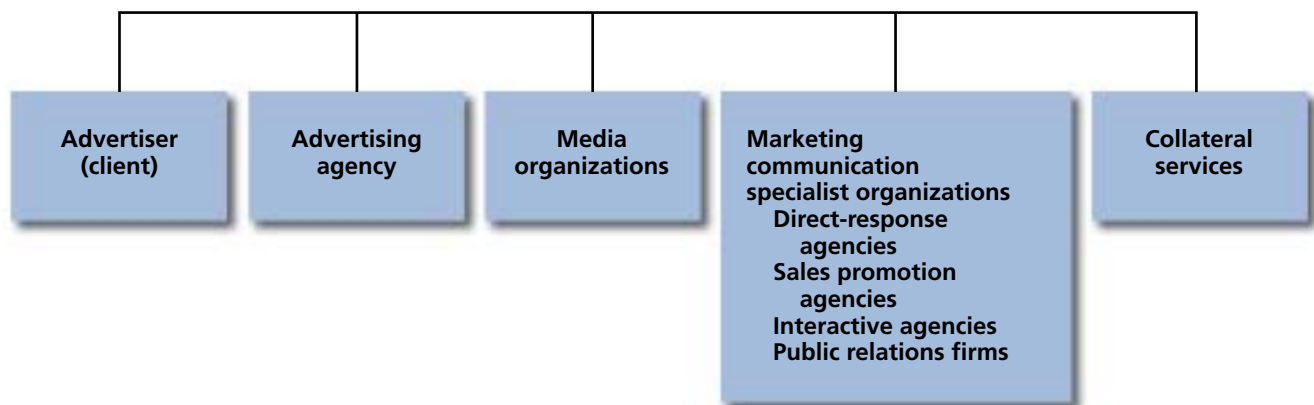
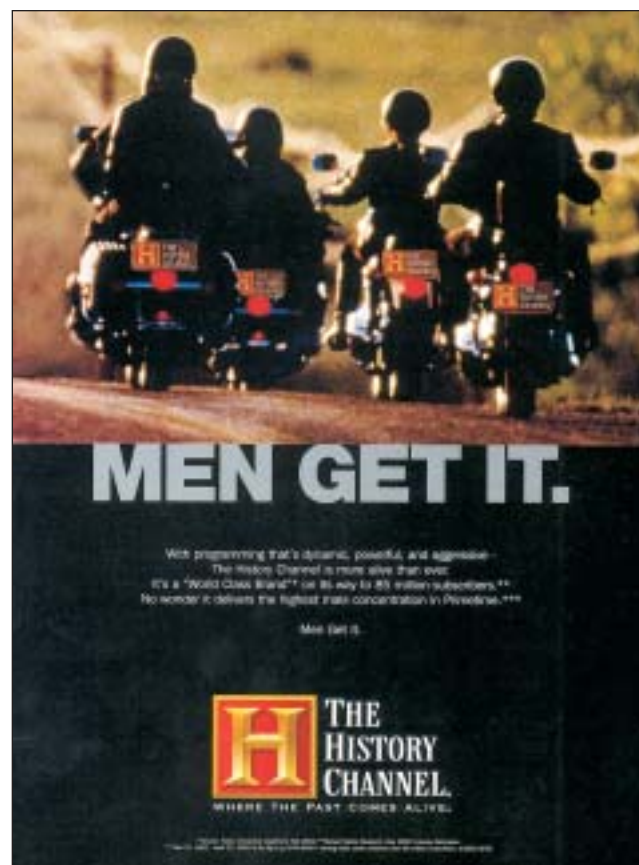


Exhibit 3-1 The History Channel advertises its ability to reach male television viewers



process. Many large advertisers retain the services of a number of agencies, particularly when they market a number of products. For example, Kraft Foods uses as many as 8 advertising agencies for its various brands, while Procter & Gamble uses 12 ad agencies and 2 major media buying services companies. More and more, ad agencies are acting as partners with advertisers and assuming more responsibility for developing the marketing and promotional programs.

Media organizations are another major participant in the advertising and promotions process. The primary function of most media is to provide information or entertainment to their subscribers, viewers, or readers. But from the perspective of the promotional planner, the purpose of media is to provide an environment for the firm's marketing communications message. The media must have editorial or program content that attracts consumers so that advertisers and their agencies will want to buy time or space with them. Exhibit 3-1 shows an ad run in advertising trade publications promoting the value of The History Channel magazine as a media vehicle for reaching men. While the media perform many other functions that help advertisers understand their markets and their customers, a medium's primary objective is to sell itself as a way for companies to reach their target markets with their messages effectively.

The next group of participants are organizations that provide **specialized marketing communications services**. They include direct-marketing agencies, sales promotion agencies, interactive agencies, and public relations firms. These organizations provide services in their areas of expertise. A direct-response agency develops and implements direct-marketing programs, while sales promotion agencies develop promotional programs such as contests and sweepstakes, premium offers, or sampling programs. Interactive agencies are being retained to develop websites for the Internet and help marketers as they move deeper into the realm of interactive media. Public relations firms are used to generate and manage publicity for a company and its products and services as well as to focus on its relationships and communications with its relevant publics.

The final participants shown in the promotions process of Figure 3-1 are those that provide **collateral services**, the wide range of support functions used by advertisers,

agencies, media organizations, and specialized marketing communications firms. These individuals and companies perform specialized functions the other participants use in planning and executing advertising and other promotional functions. We will now examine the role of each participant in more detail. (Media organizations will be examined in Chapters 10 through 14.)

Virtually every business organization uses some form of marketing communications. However, the way a company organizes for these efforts depends on several factors, including its size, the number of products it markets, the role of advertising and promotion in its marketing mix, the advertising and promotion budget, and its marketing organization structure. Many individuals throughout the organization may be involved in the promotions decision-making process. Marketing personnel have the most direct relationship with advertising and are often involved in many aspects of the decision process, such as providing input to the campaign plan, agency selection, and evaluation of proposed programs. Top management is usually interested in how the advertising program represents the firm, and this may also mean being involved in advertising decisions even when the decisions are not part of its day-to-day responsibilities.

While many people both inside and outside the organization have some input into the advertising and promotion process, direct responsibility for administering the program must be assumed by someone within the firm. Many companies have an advertising department headed by an advertising or communications manager operating under a marketing director. An alternative used by many large multiproduct firms is a decentralized marketing (brand management) system. A third option is to form a separate agency within the firm, an in-house agency. Each of these alternatives is examined in more detail in the following sections.

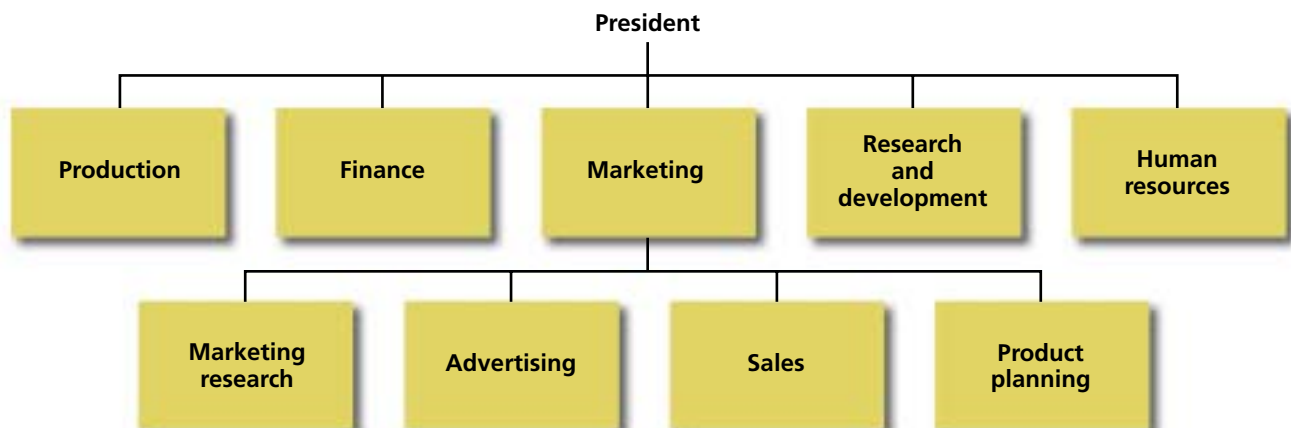
Organizing for Advertising and Promotion in the Firm: The Client's Role

The Centralized System

In many organizations, marketing activities are divided along functional lines, with advertising placed alongside other marketing functions such as sales, marketing research, and product planning, as shown in Figure 3-2. The **advertising manager** is responsible for all promotions activities except sales (in some companies this individual has the title of Marketing Communications Manager). In the most common example of a **centralized system**, the advertising manager controls the entire promotions operation, including budgeting, coordinating creation and production of ads, planning media schedules, and monitoring and administering the sales promotions programs for all the company's products or services.

The specific duties of the advertising manager depend on the size of the firm and the importance it places on promotional programs. Basic functions the manager and staff perform include the following.

Figure 3-2 The advertising department under a centralized system



Planning and Budgeting The advertising department is responsible for developing advertising and promotions plans that will be approved by management and recommending a promotions program based on the overall marketing plan, objectives, and budget. Formal plans are submitted annually or when a program is being changed significantly, as when a new campaign is developed. While the advertising department develops the promotional budget, the final decision on allocating funds is usually made by top management.

Administration and Execution The manager must organize the advertising department and supervise and control its activities. The manager also supervises the execution of the plan by subordinates and/or the advertising agency. This requires working with such departments as production, media, art, copy, and sales promotion. If an outside agency is used, the advertising department is relieved of much of the executional responsibility; however, it must review and approve the agency's plans.

Coordination with Other Departments The manager must coordinate the advertising department's activities with those of other departments, particularly those involving other marketing functions. For example, the advertising department must communicate with marketing research and/or sales to determine which product features are important to customers and should be emphasized in the company's communications. Research may also provide profiles of product users and nonusers for the media department before it selects broadcast or print media. The advertising department may also be responsible for preparing material the sales force can use when calling on customers, such as sales promotion tools, advertising materials, and point-of-purchase displays.

Coordination with Outside Agencies and Services Many companies have an advertising department but still use many outside services. For example, companies may develop their advertising programs in-house while employing media buying services to place their ads and/or use collateral services agencies to develop brochures, point-of-purchase materials, and so on. The department serves as liaison between the company and any outside service providers and also determines which ones to use. Once outside services are retained, the manager will work with other marketing managers to coordinate their efforts and evaluate their performances.

A centralized organizational system is often used when companies do not have many different divisions, product or service lines, or brands to advertise. For example, airlines such as Southwest, American, and Continental have centralized advertising departments. Many companies prefer a centralized advertising department because developing and coordinating advertising programs from one central location facilitates communication regarding the promotions program, making it easier for top management to participate in decision making. A centralized system may also result in a more efficient operation because fewer people are involved in the program decisions, and as their experience in making such decisions increases, the process becomes easier.

At the same time, problems are inherent in a centralized operation. First, it is difficult for the advertising department to understand the overall marketing strategy for the brand. The department may also be slow in responding to specific needs and problems of a product or brand. As companies become larger and develop or acquire new products, brands, or even divisions, the centralized system may become impractical.

The Decentralized System

In large corporations with multiple divisions and many different products, it is very difficult to manage all the advertising, promotional, and other functions through a centralized department. These types of companies generally have a **decentralized system**, with separate manufacturing, research and development, sales, and marketing departments for various divisions, product lines, or businesses. Many companies that use a decentralized system, such as Procter & Gamble, Gillette Co., and Nestlé, assign each product or brand to a **brand manager** who is responsible for the total management of the brand, including planning, budgeting, sales, and profit performance. (The

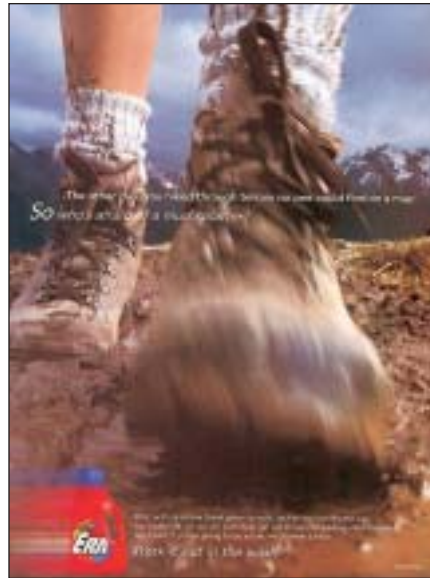


Exhibit 3-2 Many of Procter & Gamble's brands compete against each other

term *product manager* is also used to describe this position.) The brand manager, who may have one or more assistant brand managers, is also responsible for the planning, implementation, and control of the marketing program.¹

Under this system, the responsibilities and functions associated with advertising and promotions are transferred to the brand manager, who works closely with the outside advertising agency and other marketing communications specialists as they develop the promotional program.² In a multiproduct firm, each brand may have its own ad agency and may compete against other brands within the company, not just against outside competitors. For example, Exhibit 3-2 shows ads for Tide and ERA, which are both Procter & Gamble products that compete for a share of the laundry detergent market.

As shown in Figure 3-3, the advertising department is part of marketing services and provides support for the brand managers. The role of marketing services is to assist the brand managers in planning and coordinating the integrated marketing communications program. In some companies, the marketing services group may include sales promotion. The brand managers may work with sales promotion people to develop budgets, define strategies, and implement tactical executions for both trade and consumer promotions. Marketing services may also provide other types of support services, such as package design and merchandising.

Some companies may have an additional layer(s) of management above the brand managers to coordinate the efforts of all the brand managers handling a related group of products. An example is the organizational structure of Procter & Gamble, shown in Figure 3-4. This system—generally referred to as a **category management system**—includes category managers as well as brand and advertising managers. The category manager oversees management of the entire product category and focuses on the strategic role of the various brands in order to build profits and market share.³

The advertising manager may review and evaluate the various parts of the program and advise and consult with the brand managers. This person may have the authority to override the brand manager's decisions on advertising. In some multiproduct firms that spend a lot on advertising, the advertising manager may coordinate the work of the various agencies to obtain media discounts for the firm's large volume of media purchases.

An advantage of the decentralized system is that each brand receives concentrated managerial attention, resulting in faster response to both problems and opportunities. The brand manager system is also more flexible and makes it easier to adjust various aspects of the advertising and promotional program, such as creative platforms and media and sales promotion schedules.⁴ For example, General Motors began using a brand manager system in 1996 as a way to create stronger identities and positioning platforms for its 40-plus models of cars, trucks, minivans, and sport utility vehicles. The brand managers have full responsibility for the marketing of their vehicles,

Figure 3-3 A decentralized brand management system

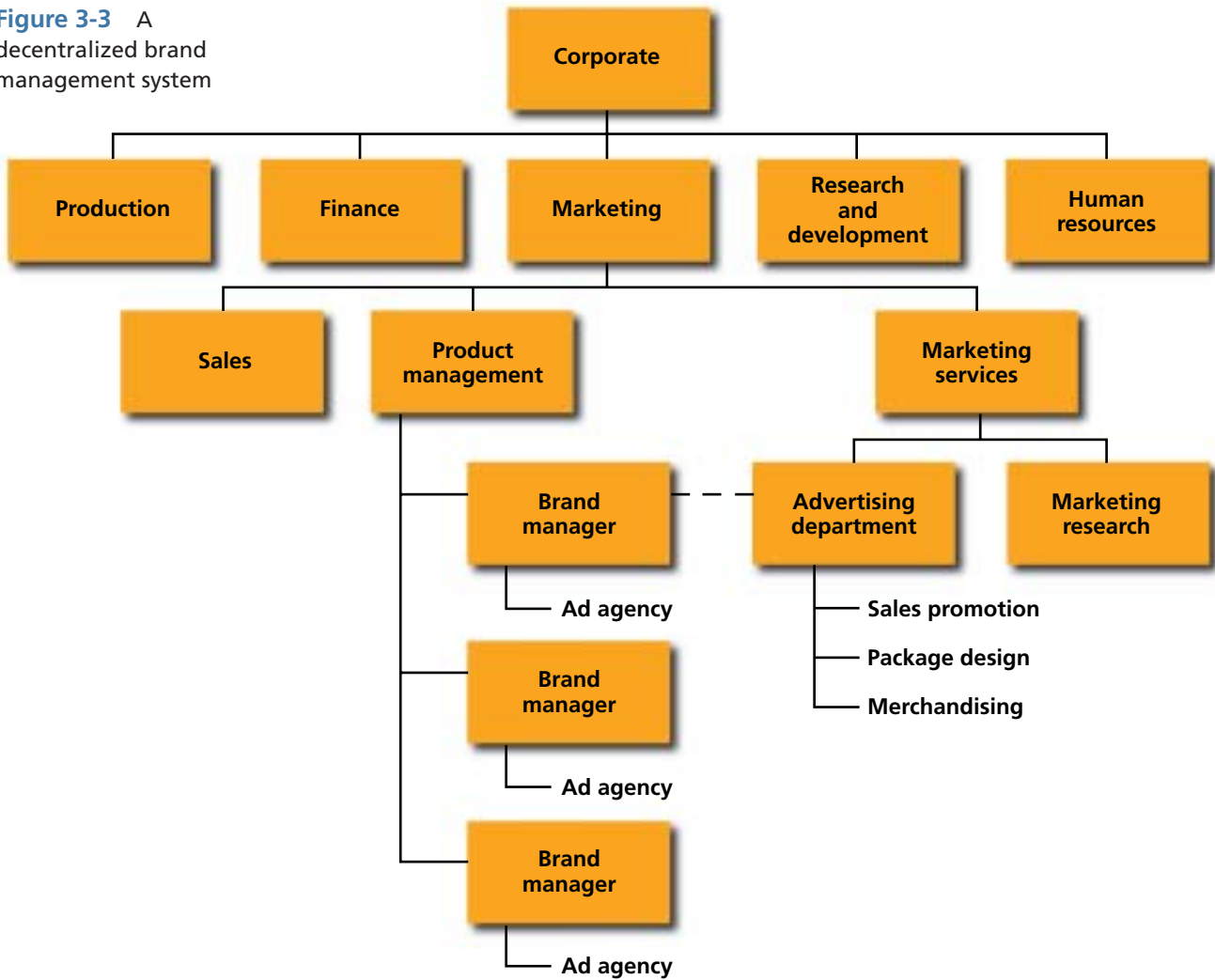
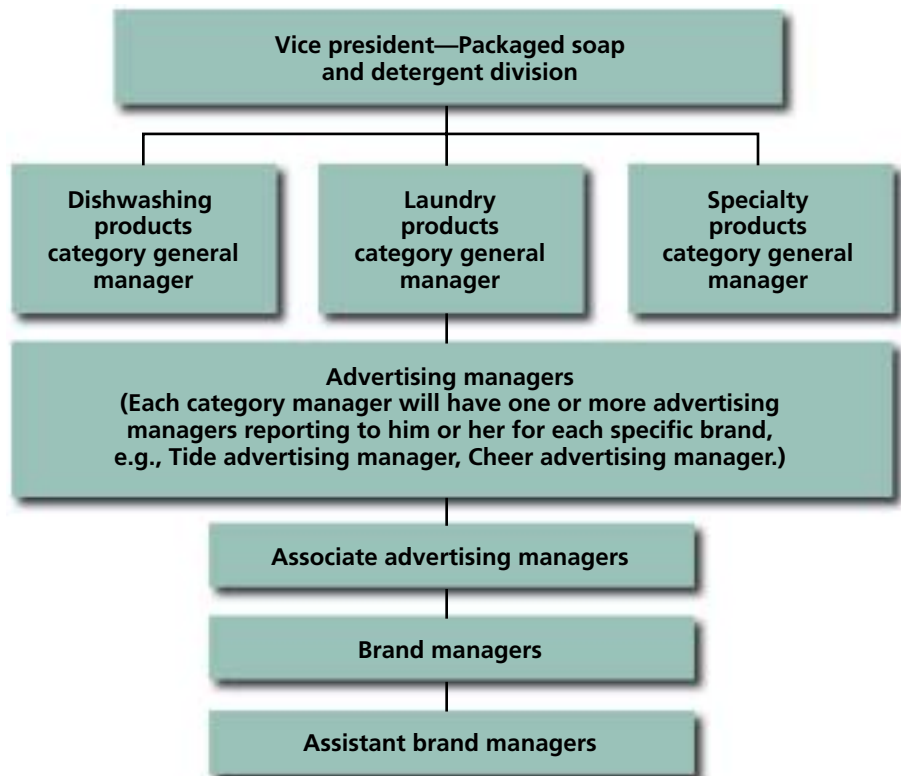


Figure 3-4 A Procter & Gamble division, using the category management system



including the identification of target markets as well as the development of integrated marketing communications programs that will differentiate the brand.⁵

There are some drawbacks to the decentralized approach. Brand managers often lack training and experience. The promotional strategy for a brand may be developed by a brand manager who does not really understand what advertising or sales promotion can and cannot do and how each should be used. Brand managers may focus too much on short-run planning and administrative tasks, neglecting the development of long-term programs.

Another problem is that individual brand managers often end up competing for management attention, marketing dollars, and other resources, which can lead to unproductive rivalries and potential misallocation of funds. The manager's persuasiveness may become a bigger factor in determining budgets than the long-run profit potential of the brands. These types of problems were key factors in Procter & Gamble's decision to switch to a category management system.

Finally, the brand management system has been criticized for failing to provide brand managers with authority over the functions needed to implement and control the plans they develop.⁶ Some companies have dealt with this problem by expanding the roles and responsibilities of the advertising and sales promotion managers and their staff of specialists. The staff specialists counsel the individual brand managers, and advertising or sales promotion decision making involves the advertising and/or sales promotion manager, the brand manager, and the marketing director.

In-House Agencies

Some companies, in an effort to reduce costs and maintain greater control over agency activities, have set up their own advertising agencies internally. An **in-house agency** is an advertising agency that is set up, owned, and operated by the advertiser. Some in-house agencies are little more than advertising departments, but in other companies they are given a separate identity and are responsible for the expenditure of large sums of advertising dollars. Large advertisers that use in-house agencies include Calvin Klein, The Gap, Avon, Revlon, and Benetton. Many companies use in-house agencies exclusively; others combine in-house efforts with those of outside agencies. For example, No Fear handles most of its advertising in-house, but it does use an outside agency for some of its creative work (Exhibit 3-3). (The specific roles performed by in-house agencies will become clearer when we discuss the functions of outside agencies.)

A major reason for using an in-house agency is to reduce advertising and promotion costs. Companies with very large advertising budgets pay a substantial amount to outside agencies in the form of media commissions. With an internal structure, these commissions go to the in-house agency. An in-house agency can also provide related work such as sales presentations and sales force materials, package design, and public



Exhibit 3-3 Most of the advertising for No Fear is done by an in-house agency

relations at a lower cost than outside agencies. A study by M. Louise Ripley found that creative and media services were the most likely functions to be performed outside, while merchandising and sales promotion were the most likely to be performed in-house.⁷

Saving money is not the only reason companies use in-house agencies. Time savings, bad experiences with outside agencies, and the increased knowledge and understanding of the market that come from working on advertising and promotion for the product or service day by day are also reasons. Companies can also maintain tighter control over the process and more easily coordinate promotions with the firm's overall marketing program. Some companies use an in-house agency simply because they believe it can do a better job than an outside agency could.⁸

Opponents of in-house agencies say they can give the advertiser neither the experience and objectivity of an outside agency nor the range of services. They argue that outside agencies have more highly skilled specialists and attract the best creative talent and that using an external firm gives a company a more varied perspective on its advertising problems and greater flexibility. In-house personnel may become narrow or grow stale while working on the same product line, but outside agencies may have different people with a variety of backgrounds and ideas working on the account. Flexibility is greater because an outside agency can be dismissed if the company is not satisfied, whereas changes in an in-house agency could be slower and more disruptive.

The cost savings of an in-house agency must be evaluated against these considerations. For many companies, high-quality advertising is critical to their marketing success and should be the major criterion in determining whether to use in-house services. Companies like Rockport and Redken Laboratories have moved their in-house work to outside agencies in recent years. Redken cited the need for a "fresh look" and objectivity as the reasons, noting that management gets too close to the product to come up with different creative ideas. Companies often hire outside agencies as they grow and their advertising budgets and needs increase. For example, Gateway hired a full-service outside agency to handle its advertising as the personal computer company experienced rapid growth during the 90s.⁹

The ultimate decision as to which type of advertising organization to use depends on which arrangement works best for the company. The advantages and disadvantages of the three systems are summarized in Figure 3-5. We now turn our attention to the functions of outside agencies and their roles in the promotional process.

Figure 3-5 Comparison of advertising organization systems

Organizational system	Advantages	Disadvantages
<i>Centralized</i>	<ul style="list-style-type: none"> • Facilitated communications • Fewer personnel required • Continuity in staff • Allows for more top-management involvement 	<ul style="list-style-type: none"> • Less involvement with and understanding of overall marketing goals • Longer response time • Inability to handle multiple product lines
<i>Decentralized</i>	<ul style="list-style-type: none"> • Concentrated managerial attention • Rapid response to problems and opportunities • Increased flexibility 	<ul style="list-style-type: none"> • Ineffective decision making • Internal conflicts • Misallocation of funds • Lack of authority
<i>In-house agencies</i>	<ul style="list-style-type: none"> • Cost savings • More control • Increased coordination 	<ul style="list-style-type: none"> • Less experience • Less objectivity • Less flexibility

Advertising Agencies

Many major companies use an advertising agency to assist them in developing, preparing, and executing their promotional programs. An ad agency is a service organization that specializes in planning and executing advertising programs for its clients. Over 13,000 U.S. and international agencies are listed in the *Standard Directory of Advertising Agencies* (the “Red Book”); however, most are individually owned small businesses employing fewer than five people. The U.S. ad agency business is highly concentrated. Nearly two-thirds of the domestic **billings** (the amount of client money agencies spend on media purchases and other equivalent activities) are handled by the top 500 agencies. In fact, just 10 U.S. agencies handle nearly 30 percent of the total volume of business done by the top 500 agencies in the United States. The top agencies also have foreign operations that generate substantial billings and income. The top 25 agencies, ranked by their U.S. gross incomes, are listed in Figure 3-6. The table shows that the advertising business is also geographically concentrated, with 20 of the top 25 agencies headquartered in New York City or the surrounding area. Nearly 40 percent of U.S. agency business is handled by New York–based agencies. Other leading advertising centers in the United States include Boston, Chicago, Los Angeles, Detroit, San Francisco, and Minneapolis.¹⁰

During the late 1980s and into the 90s, the advertising industry underwent major changes as large agencies merged with or acquired other agencies and support organizations to form large advertising organizations, or superagencies. These **superagencies**

Rank	Agency	Headquarters	Gross Income (Millions)
1	Grey Worldwide	New York	\$581.0
2	J. Walter Thompson	New York	565.5
3	McCann-Erickson Worldwide	New York	528.1
4	Leo Burnett Worldwide	Chicago	472.1
5	BBDO Worldwide	New York	458.9
6	Y&R Advertising	New York	432.2
7	DDB Worldwide Communications	New York	428.9
8	Euro RSCG Worldwide	New York	418.2
9	Ogilvy & Mather Worldwide	New York	384.8
10	Foote, Cone & Belding Worldwide	New York	376.3
11	D’Arcy Masius Benton & Bowles	New York	316.8
12	TMP Worldwide	New York	227.9
13	Campbell-Ewald	Warren, MI	214.0
14	TBWA Worldwide	New York	206.1
15	Deutsch	New York	202.5
16	Arnold Worldwide	Boston	193.8
17	CommonHealth	Parsippany, N.J.	190.8
18	Lowe & Partners Worldwide	New York	184.9
19	Saatchi & Saatchi	New York	176.0
20	Bates U.S.A.	New York	154.5
21	Publicis U.S.A.	New York	139.6
22	Nelson Communications Worldwide	New York	131.9
23	Hill, Holliday, Connors, Cosmopolos	Boston	125.0
24	Low Healthcare Worldwide	Parsippany, N.J.	124.0
25	Campbell Mithun	Minneapolis	118.0

Figure 3-6 Top 25 agencies ranked by U.S. gross income, 2001

Source: *Advertising Age*, Apr. 22, 2002, p. S-4.

were formed so that agencies could provide clients with integrated marketing communications services worldwide. Some advertisers became disenchanted with the superagencies and moved to smaller agencies that were flexible and more responsive.¹¹ However, during the mid-90s the agency business went through another wave of consolidation as a number of medium-size agencies were acquired and became part of large advertising organizations such as Omnicom Group, WPP Group, and the Interpublic Group of Cos. Many of the mid-size agencies were acquired by or forged alliances with larger agencies because their clients wanted an agency with international communications capabilities and their alignment with larger organizations gave them access to a network of agencies around the world. For example, TBWA and Chiat/Day merged and became part of the TBWA Worldwide agency, which is part of the Omnicom Group, the world's largest agency holding company. The acquisition of mid-size agencies by large advertising organizations has continued into the new millennium. In early 2000, Fallon McElligott, one of the largest and hottest independent U.S. ad agencies, was acquired by French advertising giant Publicis Groupe, as was London-based Saatchi & Saatchi. In 2002 Publicis acquired the Bcom3 Group, whose holdings include the Leo Burnett Co.; D'Arcy Masius Benton & Bowles; Manning Selvage & Lee; Bartle Bogel Hegarty; and the Starcom Media Vest Group. The deal also includes a partnership with Dentsu, Japan's largest advertising agency.¹²

Many of the advertising organizations and major agencies have been acquiring companies specializing in areas such as interactive communications, public relations, direct marketing, and sales promotion so that they can offer their clients an ever-broader range of integrated marketing communication services.¹³ Recently the activity of the advertising holding companies has moved in a new direction as they have begun pursuing alliances with talent agencies. A new agreement negotiated between the Screen Actors Guild and the Association of Talent Agents in 2002 allows outside investors such as advertising agencies to own stakes in talent agencies that seek and negotiate work on behalf of actors, directors, and writers as well as some athletes.¹⁴ By having a stake in the talent business, ad agencies can negotiate deals with current, as well as up-and-coming, celebrities for their clients.

Exhibit 3-4 Mentus Communications specializes in creating ads for high-tech companies



The Ad Agency's Role

The functions performed by advertising agencies might be conducted by the clients themselves through one of the designs discussed earlier in this chapter, but most large companies use outside firms. This section discusses some reasons advertisers use external agencies.

Reasons for Using an Agency Probably the main reason outside agencies are used is that they provide the client with the services of highly skilled individuals who are specialists in their chosen fields. An advertising agency staff may include artists, writers, media analysts, researchers, and others with specific skills, knowledge, and experience who can help market the client's products or services. Many agencies specialize in a particular type of business and use their knowledge of the industry to assist their clients. For example, Mentus Inc. is an agency that specializes in integrated marketing communications for the high-technology, e-commerce, and bioscience industries (Exhibit 3-4).

An outside agency can also provide an objective viewpoint of the market and its business that is not subject to internal company policies, biases, or other limitations. The agency can draw on the broad range of experience it has gained while working on a diverse set of marketing problems for various clients. For example, an ad agency that is handling a travel-related account may have individuals who have worked with airlines,

cruise ship companies, travel agencies, hotels, and other travel-related industries. The agency may have experience in this area or may even have previously worked on the advertising account of one of the client's competitors. Thus, the agency can provide the client with insight into the industry (and, in some cases, the competition).

Types of Ad Agencies

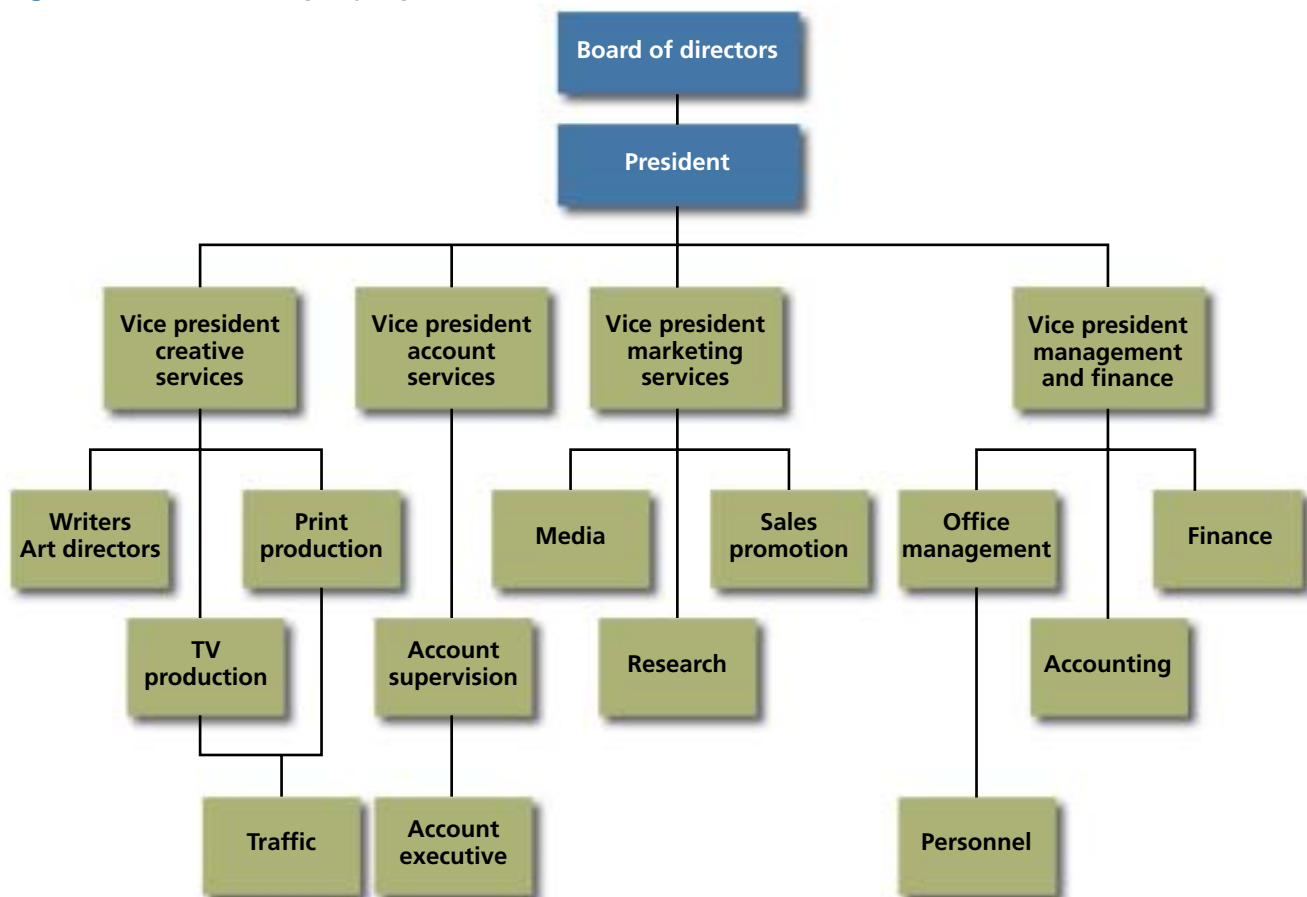
Since ad agencies can range in size from a one- or two-person operation to large organizations with over 1,000 employees, the services offered and functions performed will vary. This section examines the different types of agencies, the services they perform for their clients, and how they are organized.

Full-Service Agencies Many companies employ what is known as a **full-service agency**, which offers its clients a full range of marketing, communications, and promotions services, including planning, creating, and producing the advertising; performing research; and selecting media. A full-service agency may also offer nonadvertising services such as strategic market planning; sales promotions, direct marketing, and interactive capabilities; package design; and public relations and publicity.

The full-service agency is made up of departments that provide the activities needed to perform the various advertising functions and serve the client, as shown in Figure 3-7.

Account Services Account services, or account management, is the link between the ad agency and its clients. Depending on the size of the client and its advertising budget, one or more account executives serve as liaison. The **account executive** is responsible for understanding the advertiser's marketing and promotions needs and interpreting them to agency personnel. He or she coordinates agency efforts in planning, creating, and producing ads. The account executive also presents agency recommendations and obtains client approval.

Figure 3-7 Full-service agency organizational chart



As the focal point of agency-client relationships, the account executive must know a great deal about the client's business and be able to communicate this to specialists in the agency working on the account.¹⁵ The ideal account executive has a strong marketing background as well as a thorough understanding of all phases of the advertising process.

Marketing Services Over the past two decades, use of marketing services has increased dramatically. One service gaining increased attention is research, as agencies realize that to communicate effectively with their clients' customers, they must have a good understanding of the target audience. As shown in Chapter 1, the advertising planning process begins with a thorough situation analysis, which is based on research and information about the target audience.

Most full-service agencies maintain a *research department* whose function is to gather, analyze, and interpret information that will be useful in developing advertising for their clients. This can be done through primary research—where a study is designed, executed, and interpreted by the research department—or through the use of secondary (previously published) sources of information. Sometimes the research department acquires studies conducted by independent syndicated research firms or consultants. The research staff then interprets these reports and passes on the information to other agency personnel working on that account.

The research department may also design and conduct research to pretest the effectiveness of advertising the agency is considering. For example, copy testing is often conducted to determine how messages developed by the creative specialists are likely to be interpreted by the receiving audience.

The *media department* of an agency analyzes, selects, and contracts for space or time in the media that will be used to deliver the client's advertising message. The media department is expected to develop a media plan that will reach the target market and effectively communicate the message. Since most of the client's ad budget is spent on media time and/or space, this department must develop a plan that both communicates with the right audience and is cost-effective.

Media specialists must know what audiences the media reach, their rates, and how well they match the client's target market. The media department reviews information on demographics, magazine and newspaper readership, radio listenership, and consumers' TV viewing patterns to develop an effective media plan. The media buyer implements the media plan by purchasing the actual time and space.

The media department is becoming an increasingly important part of the agency business. An agency's ability to negotiate prices and effectively use the vast array of media vehicles, as well as other sources of customer contact, is becoming as important as its ability to create ads. Some of the major agencies and/or their holding companies have formed independent media services companies to better serve their clients. For example, the Leo Burnett agency formed Starcom as a full service media planning and buying company, while McCann Erickson Worldwide formed Universal McCann, and Foote Cone and Belding Worldwide formed Horizon.FCB. These media companies primarily serve the agency's clients but may also offer media services separately to other clients as well. A number of large advertisers have consolidated their media buying with these large media services companies to save money and improve media efficiency. General Motors consolidated its \$3.6 billion media business with Starcom, while the Interpublic Group's Universal McCann handles close to \$1 billion in Nestlé media business around the world.¹⁶

The research and media departments perform most of the functions that full-service agencies need to plan and execute their clients' advertising programs. Some agencies offer additional marketing services to their clients to assist in other promotional areas. An agency may have a sales promotion department, or merchandising department, that specializes in developing contests, premiums, promotions, point-of-sale materials, and other sales materials. It may have direct-marketing specialists and package designers, as well as a PR/publicity department. Many agencies have developed interactive media departments to create websites for their clients. The growing popularity of integrated marketing communications has prompted many full-function agencies to develop capabilities and offer services in these other promotional areas. IMC Perspective 3-1 discusses how traditional advertising agencies are developing integrated marketing capabilities that extend beyond media advertising.

Agencies Learn That It's about More Than Advertising

During the late 1980s many of the world's largest advertising agencies recognized that their clients were shifting more and more of their promotional budgets away from traditional media advertising to other areas of marketing communication such as direct marketing, public relations, sales promotion, and event sponsorship. In response to this trend, many of these agencies began acquiring companies that were specialists in these areas and ended up turning them into profit-centered departments or subsidiaries that often ended up battling one another for a piece of their client's promotional budget. While the agencies could point to these specialists when touting their IMC capabilities, there was really little emphasis on integrating the various communication functions.

During the 90s some agencies began taking steps to place more of an emphasis on IMC by truly integrating it into all aspects of their operations. For example, the Leo Burnett agency brought in direct-marketing, sales promotion, event marketing, and public relations professionals and dispersed them throughout the agency. Burnetters were expected to interact with clients not as advertising specialists who happened to know about sales promotion, direct marketing, or public relations but as generalists able to work with a variety of integrated marketing tools. Another agency that embraced IMC was Fallon McElligott, which hired a president of integrated marketing and expanded its capabilities in areas such as PR, events, and interactive advertising.

As we begin the new millennium, the shift toward IMC is taking place at a number of major ad agencies that are recognizing they must embrace a way of doing business that doesn't always involve advertis-

ing. Many companies are developing campaigns and strategies using event marketing, sponsorships, direct marketing, targeted radio, and the Internet with only peripheral use of print and TV advertising. The Internet poses a particular threat to traditional agencies as it is not well understood by many agency veterans and is taking yet another slice from the marketing communications budget pie.

Foote, Cone & Belding is remaking itself as a New Economy ad agency by building up its capabilities in areas such as direct marketing, interactive, customer relationship, management/database, event marketing, and sports marketing. FCB touts its ability to offer clients a broad spectrum of integrated marketing communications services through its "Model of One," which ensures that all these services are seamlessly integrated and unified. All efforts are managed under one team and based on one strategy and one broad creative idea.

At J. Walter Thompson, the agency's CEO, Chris Jones, has championed a program called Thompson Total Branding (TTB) that makes JWT the manager of a client's brand. TTB involves taking what the agency calls a "Branding Idea" and developing a total communications plan that helps decide which integrated marketing tools can most powerfully and persuasively communicate it. One of the company executives notes, "Agencies are finally realizing that our job is creating branding solutions and, while those may involve advertising, it's not necessarily about advertising. That's a fundamental change in the way we operate." The ability to use various IMC tools has helped the agency secure new accounts and strengthen relationships with existing clients.

While traditional agencies have been preaching integrated marketing for years, many have not been really practicing it. However, these agencies are realizing they must alter their course if they plan to be competitive in the future. They are retraining their staffers in the use and best practices of various IMC tools and getting them, at long last, to focus on total communications solutions to their clients' businesses. The move toward integrated marketing communications appears to be for real this time around.

Sources: Laura Q. Hughes, "Measuring Up," *Advertising Age*, Feb. 5, 2001, pp. 1, 34; Kathryn Kranhold, "FCB Makes Itself a New Economy Shop," *The Wall Street Journal*, June 14, 2000, p. B8; Ellen Newborne, "Mad Ave: A Star Is Reborn," *BusinessWeek*, July 26, 1999, pp. 54-64.



Creative Services The creative services department is responsible for the creation and execution of advertisements. The individuals who conceive the ideas for the ads and write the headlines, subheads, and body copy (the words constituting the message) are known as **copywriters**. They may also be involved in determining the basic appeal or theme of the ad campaign and often prepare a rough initial visual layout of the print ad or television commercial.

While copywriters are responsible for what the message says, the *art department* is responsible for how the ad looks. For print ads, the art director and graphic designers prepare *layouts*, which are drawings that show what the ad will look like and from which the final artwork will be produced. For TV commercials, the layout is known as a *storyboard*, a sequence of frames or panels that depict the commercial in still form.

Members of the creative department work together to develop ads that will communicate the key points determined to be the basis of the creative strategy for the client's product or service. Writers and artists generally work under the direction of the agency's creative director, who oversees all the advertising produced by the organization. The director sets the creative philosophy of the department and may even become directly involved in creating ads for the agency's largest clients.

Once the copy, layout, illustrations, and mechanical specifications have been completed and approved, the ad is turned over to the *production department*. Most agencies do not actually produce finished ads; they hire printers, engravers, photographers, typographers, and other suppliers to complete the finished product. For broadcast production, the approved storyboard must be turned into a finished commercial. The production department may supervise the casting of people to appear in the ad and the setting for the scenes as well as choose an independent production studio. The department may hire an outside director to turn the creative concept into a commercial. For example, several companies, including Nike and Kmart, have used film director Spike Lee to direct their commercials; Airwalk shoes has used John Glen, who directed many of the James Bond films, for its TV spots. Copywriters, art directors, account managers, people from research and planning, and representatives from the client side may all participate in production decisions, particularly when large sums of money are involved.

Creating an advertisement often involves many people and takes several months. In large agencies with many clients, coordinating the creative and production processes can be a major problem. A *traffic department* coordinates all phases of production to see that the ads are completed on time and that all deadlines for submitting the ads to the media are met. The traffic department may be located in the creative services area of the agency, or be part of media or account management, or be separate.

Management and Finance Like any other business, an advertising agency must be managed and perform basic operating and administrative functions such as accounting, finance, and human resources. It must also attempt to generate new business. Large agencies employ administrative, managerial, and clerical people to perform these functions. The bulk of an agency's income (approximately 64 percent) goes to salary and benefits for its employees. Thus, an agency must manage its personnel carefully and get maximum productivity from them.

Agency Organization and Structure Full-function advertising agencies must develop an organizational structure that will meet their clients' needs and serve their own internal requirements. Most medium-size and large agencies are structured under either a departmental or a group system. Under the **departmental system**, each of the agency functions shown in Figure 3-7 is set up as a separate department and is called on as needed to perform its specialty and serve all of the agency's clients. Ad layout, writing, and production are done by the creative department, marketing services is responsible for any research or media selection and purchases, and the account services department handles client contact. Some agencies prefer the departmental system because it gives employees the opportunity to develop expertise in servicing a variety of accounts.

Many large agencies use the **group system**, in which individuals from each department work together in groups to service particular accounts. Each group is headed by an account executive or supervisor and has one or more media people, including

media planners and buyers; a creative team, which includes copywriters, art directors, artists, and production personnel; and one or more account executives. The group may also include individuals from other departments such as marketing research, direct marketing, or sales promotion. The size and composition of the group varies depending on the client's billings and the importance of the account to the agency. For very important accounts, the group members may be assigned exclusively to one client. In some agencies, they may serve a number of smaller clients. Many agencies prefer the group system because employees become very knowledgeable about the client's business and there is continuity in servicing the account.

Other Types of Agencies and Services

Not every agency is a large full-service agency. Many smaller agencies expect their employees to handle a variety of jobs. For example, account executives may do their own research, work out their own media schedule, and coordinate the production of ads written and designed by the creative department. Many advertisers, including some large companies, are not interested in paying for the services of a full-service agency but are interested in some of the specific services agencies have to offer. Over the past few decades, several alternatives to full-service agencies have evolved, including creative boutiques and media buying services.

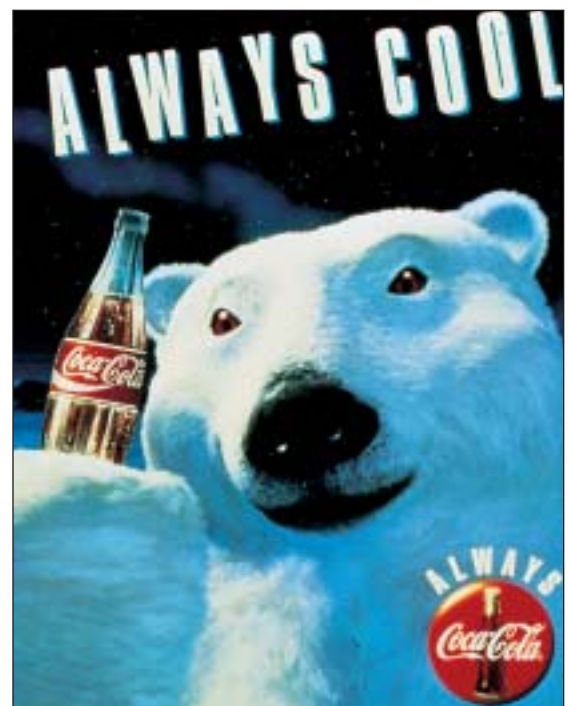
Creative Boutiques A **creative boutique** is an agency that provides only creative services. These specialized companies have developed in response to some clients' desires to use only the creative talent of an outside provider while maintaining the other functions internally. The client may seek outside creative talent because it believes an extra creative effort is required or because its own employees do not have sufficient skills in this regard. Some advertisers have been bypassing traditional agencies and tapping into the movie industry for creative ideas for their commercials.¹⁷ For example, a few years ago Coca-Cola entered into a joint venture with Disney and three former employees of Creative Artists Agency (CAA), a Hollywood talent agency, to create an in-house agency called Edge Creative. The agency created several commercials for Coca-Cola's flagship brand, including the popular polar bears spot (Exhibit 3-5). However, in 2000 the Coca-Cola Company sold off its interest in Edge Creative and shifted the Coke account back to a traditional agency.

Full-service agencies often subcontract work to creative boutiques when they are very busy or want to avoid adding full-time employees to their payrolls. Creative boutiques are usually founded by members of the creative departments of full-service agencies who leave the firm and take with them clients who want to retain their creative talents. These boutiques usually perform the creative function on a fee basis. IMC Perspective 3-2 discusses the challenges faced by creative boutiques and some of the small shops that have been successful recently.

Media Buying Services **Media buying services** are independent companies that specialize in the buying of media, particularly radio and television time. The task of purchasing advertising media has grown more complex as specialized media proliferate, so media buying services have found a niche by specializing in the analysis and purchase of advertising time and space. Agencies and clients usually develop their own media strategies and hire the buying service to execute them. Some media buying services do help advertisers plan their media strategies. Because media buying services purchase such large amounts of time and space, they receive large discounts and can save the small agency or client money on media purchases. Media buying services are paid a fee or commission for their work.

Media buying services have been experiencing strong growth in recent years as clients seek alternatives to full-service agency

Exhibit 3-5 This popular Coca-Cola spot was done by the company's in-house creative boutique



Tough Times for Creative Boutiques

Creative boutiques have long been an important part of the advertising industry. The competitive advantage for boutiques has always been their ability to turn out inventive creative work quickly, without the cumbersome bureaucracy and politics of larger agencies. Large and small shops coexisted successfully because boutiques usually pursued smaller accounts than large agencies were interested in. And even as the agency business was reshaped by consolidation and the creation of large mega-agencies that now dominate the industry, creative boutiques were riding high on the dot-com boom of the late 90s that provided a boost in billings, profile, and morale for small shops. However, the dot-com wave crashed even faster than it appeared, and then came the terrorist attacks of September 11, which were followed by the worst advertising recession in decades.

Today's creative boutiques are facing major challenges, and many are struggling to identify and differentiate themselves and attract clients. They find themselves competing against the larger agencies for accounts that would have been passed over by top-tier shops during better economic times. Moreover, selling the creativity of a boutique's work is not enough, as many clients want the range of services that larger agencies provide. Creative work does not capture the imagination of the industry the way it used to, as marketers are looking for business-building ideas rather than creative home runs. As the new business director at a large New York agency notes: "Boutiques can't compete in terms of offering integrated solutions, and don't have the resources to mount serious pitches for even the smaller pieces of business that might go to a mid-size agency. They will be forever mired in project work."

Despite these obstacles, there are still those brave or foolhardy enough to believe that with a dollar and a dream they can open their own creative boutique, and they are hanging out shingles. The advertising business has always been grounded in creativity and entrepreneurship, and most boutique partners see the small shop as still relevant in an age of consolidation and multinational clients. They note that there still is a niche for creative boutiques, citing the number of big-client-small-agency relationships across the industry. Anheuser Busch, which has large multinational agencies on its roster, also works with small hybrid shops such as Fusion Idea Lab in Chicago on project assignments for Bud Light. Target parcels out project work to small shops like Peterson Milla Hooks in Minneapolis, while Boston-based Velocity's clients include Just For



Feet and the Bruegger's Bagels chain. Many of these hope to become the Next Modernista!, the Boston shop that was founded by former creative directors from Arnold Advertising and Wieden & Kennedy, New York, and in less than two years has managed to land clients such as the Gap, MTV, and General Motors' Hummer.

Many clients recognize the benefits of working directly with a smaller creative boutique where they can get more attention and better access to creative talent than they would at a larger agency. For example, the marketing director for Culver Franchising System, the parent of Culver's Frozen Custard, hired the small One and All Shop because the company was looking for an agency where the partners would be involved and there would not be a lot of layers of bureaucracy with which to deal. Creative duties on the Boston Beer Co.'s \$30 million account went to a former Lowe Lintas & Partners creative director who left to form his own agency, called Big Chair. The vice president of brand development at Boston Beer explained: "I was looking for people who had beer experience, who had good experience with humor, and a shop that was unconventional and small. The creative so far has met my expectations and so has the relationship with very quick response time a very high level of thinking."

Many creative boutique owners still feel they can beat the odds and carve out a niche for themselves in the advertising agency business. Those who can survive the tough times facing the advertising industry may find a bright future, as there will always be clients who want key-principal involvement and creative people who are doing breakthrough creative work.

Sources: Anthony Vagnoni, "Small Fries," *Advertising Age*, March 4, 2002, pp. 20, 22; Eleftheria Parpis, "The Little League," *Adweek*, Nov. 26, 2001, p. 3.

Figure 3-8 Example of commission system payment

Media Bills Agency		Agency Bills Advertiser	
Costs for magazine space	\$ 100,000	Costs for magazine space	\$ 100,000
Less 15% commission	<u>-15,000</u>	Less 2% cash discount	<u>-1,700</u>
Cost of media space	85,000	Advertiser pays agency	\$ 98,300
Less 2% cash discount	<u>-1,700</u>		
Agency pays media	\$ 83,300	Agency income	\$ 15,000

and produce an ad. However, one client may spend \$2 million on commissionable media, which results in a \$300,000 agency income, while the other spends \$20 million, generating \$3 million in commissions. Critics argue that the commission system encourages agencies to recommend high media expenditures to increase their commission level.

Another criticism of the commission system is that it ties agency compensation to media costs. In periods of media cost inflation, the agency is (according to the client) disproportionately rewarded. The commission system has also been criticized for encouraging agencies to ignore cost accounting systems to justify the expenses attributable to work on a particular account. Still others charge that this system tempts the agency to avoid noncommissionable media such as direct mail, sales promotions, or advertising specialties, unless they are requested by the client.

Defenders of the commission system argue that it is easy to administer and it keeps the emphasis in agency competition on nonprice factors such as the quality of the advertising developed. Proponents argue that agency services are proportional to the size of the commission, since more time and effort are devoted to the large accounts that generate high revenue for the agency. They also say the system is more flexible than it appears because agencies often perform other services for large clients at no extra charge, justifying such actions by the large commission they receive.

The commission system has been a highly debated topic among advertisers and agencies for years. Critics of the system have argued that it provides an incentive for agencies to do the wrong thing, such as recommending mass-media advertising when other forms of communication such as direct marketing or public relations might do a better job.¹⁸ They argue that the commission system is outdated and must be changed. This does indeed appear to be happening. A recent study of agency compensation conducted by the Association of National Advertisers (ANA) indicates that agency compensation based on the traditional 15 percent commission is becoming rare.¹⁹ The survey found that only 21 percent of advertisers paid commissions to their agencies and only 16 percent paid the standard 15 percent. The clients who have stuck with commissions do so either from inertia or from administrative simplicity. However, the survey also found that most clients and agencies use the 15 percent commission standard as a starting point for determining other compensation agreements such as labor- and performance-based plans.

While the use of the 15 percent commission is on the wane, many advertisers still use some form of media commission to compensate their agencies. Many advertisers have gone to a **negotiated commission** system to compensate their agencies. This commission structure can take the form of reduced percentage rates, variable commission rates, and commissions with minimum and maximum profit rates. Negotiated commissions are designed to consider the needs of the clients as well as the time and effort exerted by the agency, thereby avoiding some of the problems inherent in the traditional 15 percent system. Some of the leading agencies now receive a commission based on a sliding rate that becomes lower as the clients' media expenditures increase and end up receiving average commissions of 8 to 10 percent versus the traditional 15 percent.²⁰ Agencies are also relying less on media commissions for their income as their clients expand their integrated marketing communications programs to include other forms of promotion and cut back on mass-media advertising. The percentage of

agency income from media commissions is declining, and a greater percentage is coming through other methods such as fees and performance incentives.

Fee, Cost, and Incentive-Based Systems

Since many believe the commission system is not equitable to all parties, many agencies and their clients have developed some type of fee arrangement or cost-plus agreement for agency compensation. Some are using incentive-based compensation, which is a combination of a commission and a fee system.

Fee Arrangement There are two basic types of fee arrangement systems. In the straight or **fixed-fee method**, the agency charges a basic monthly fee for all of its services and credits to the client any media commissions earned. Agency and client agree on the specific work to be done and the amount the agency will be paid for it. Sometimes agencies are compensated through a **fee-commission combination**, in which the media commissions received by the agency are credited against the fee. If the commissions are less than the agreed-on fee, the client must make up the difference. If the agency does much work for the client in noncommissionable media, the fee may be charged over and above the commissions received.

Both types of fee arrangements require that the agency carefully assess its costs of serving the client for the specified period, or for the project, plus its desired profit margin. To avoid any later disagreement, a fee arrangement should specify exactly what services the agency is expected to perform for the client. Fee arrangements have become the primary type of agreement used by advertisers with their agencies, accounting for 68 percent of the compensation plans in the recent ANA survey.

Cost-Plus Agreement Under a **cost-plus system**, the client agrees to pay the agency a fee based on the costs of its work plus some agreed-on profit margin (often a percentage of total costs). This system requires that the agency keep detailed records of the costs it incurs in working on the client's account. Direct costs (personnel time and out-of-pocket expenses) plus an allocation for overhead and a markup for profits determine the amount the agency bills the client.

Fee agreements and cost-plus systems are commonly used in conjunction with a commission system. The fee-based system can be advantageous to both the client and the agency, depending on the size of the client, advertising budget, media used, and services required. Many clients prefer fee or cost-plus systems because they receive a detailed breakdown of where and how their advertising and promotion dollars are being spent. However, these arrangements can be difficult for the agency, as they require careful cost accounting and may be difficult to estimate when bidding for an advertiser's business. Agencies are also reluctant to let clients see their internal cost figures.

Incentive-Based Compensation Many clients these days are demanding more accountability from their agencies and tying agency compensation to performance through some type of **incentive-based system**. While there are many variations, the basic idea is that the agency's ultimate compensation level will depend on how well it meets predetermined performance goals. These goals often include objective measures such as sales or market share as well as more subjective measures such as evaluations of the quality of the agency's creative work. Companies using incentive-based systems determine agency compensation through media commissions, fees, bonuses, or some combination of these methods. The use of performance incentives varies by the size of the advertiser, with large advertisers the most likely to use them. Figure 3-9 shows the various performance criteria used along with the basis for the incentive and the use of performance incentives by advertiser size.

Recognizing the movement toward incentive-based systems, most agencies have agreed to tie their compensation to performance.²¹ Agency executives note that pay for performance works best when the agency has complete control over a campaign. Thus, if a campaign fails to help sell a product or service, the agency is willing to assume complete responsibility and take a reduction in compensation. On the other hand, if sales increase, the agency can receive greater compensation for its work.

Figure 3-9 Use of performance incentives by advertisers

Performance Criteria Used for Incentive Systems	
Sales goals	73%
Market share	29
Profit	25
Brand/ad awareness	50
Brand perceptions	23
Copy test results	25
Performance reviews	58
Other criteria	11
Basis for Incentive	
Agency performance	14%
Company performance	17
Both agency and company performance	69
Performance incentive use by size of advertiser	
Under \$4 million	13%
\$4 million–\$20 million	10
\$20 million–\$100 million	33
More than \$100 million	44

Source: Association of National Advertisers: Trend in Compensation Survey: 2000.

Percentage Charges

Another way to compensate an agency is by adding a markup of **percentage charges** to various services the agency purchases from outside providers. These may include market research, artwork, printing, photography, and other services or materials. Markups usually range from 17.65 to 20 percent and are added to the client's overall bill. Since suppliers of these services do not allow the agency a commission, percentage charges cover administrative costs while allowing a reasonable profit for the agency's efforts. (A markup of 17.65 percent of costs added to the initial cost would yield a 15 percent commission. For example, research costs of $\$100,000 \times 17.65\% = \$100,000 + \$17,650 = \$117,650$. The \$17,650 markup is about 15 percent of \$117,650.)

The Future of Agency Compensation

As you can see there is no one method of agency compensation to which everyone subscribes. The recent ANA survey found that nearly half of advertisers made significant changes in their compensation plans in the past three years, while 21 percent plan more changes soon. One of the most significant findings from the recent ANA survey is the rapid rise in incentive-based compensation agreements, as 35 percent of advertisers

are using some type of performance-based system versus only 13 percent 10 years ago.

As more companies adopt IMC approaches, they are reducing their reliance on traditional media advertising, and this is leading to changes in the way they compensate their agencies. For example, Procter & Gamble, which has traditionally been a heavy user of television advertising, was one of the largest major advertisers to move away from the standard 15 percent commission system. In 2000 P&G implemented a major change in its compensation structure from one based entirely on media commissions to one based entirely on sales-based incentives. One of the reasons for the change in P&G's compensation system is to encourage agencies to focus less on expensive commissionable media such as television and magazines and make use of other IMC tools such as direct mail, event marketing, public relations, and the Internet.²² P&G joins a list of other major consumer products advertisers, such as Colgate-Palmolive, Unilever, and Campbell Soup, that have changed their systems to more closely link agency compensation to a product's performance in the market. Many automobile advertisers, including Nissan, Ford, BMW, and General Motors, are also using incentive-based systems.²³ GM made the change to encourage its agencies to look beyond traditional mass-media advertising and develop other ways of reaching consumers.²⁴

Many companies are changing their compensation systems as they move away from traditional mass media and turn to a wider array of marketing communication tools. They are also trying to make their agencies more accountable and reduce agency compensation costs. However, advertisers must recognize that their compensation policies should provide agencies with a reasonable profit if they want quality work and the best results from their agencies.

Evaluating Agencies

Given the substantial amounts of money being spent on advertising and promotion, demand for accountability of the expenditures has increased.

Regular reviews of the agency's performance are necessary. The agency evaluation process usually involves two types of assessments, one financial and operational and the other more qualitative. The **financial audit** focuses on how the agency conducts its business. It is designed to verify costs and expenses, the number of personnel hours charged to an account, and payments to media and outside suppliers. The **qualitative audit** focuses on the agency's efforts in planning, developing, and implementing the client's advertising programs and considers the results achieved.

The agency evaluation is often done on a subjective, informal basis, particularly in smaller companies where ad budgets are low or advertising is not seen as the most critical factor in the firm's marketing performance. However some companies have developed formal, systematic evaluation systems, particularly when budgets are large and the advertising function receives much emphasis. The top management of these companies wants to be sure money is being spent efficiently and effectively. As the costs of advertising and other forms of promotion rises, more companies are adopting formal procedures for evaluating the performance of their agencies.

One example of a formal agency evaluation system is that used by Whirlpool, which markets a variety of consumer products. Whirlpool management meets once a year with the company's agencies to review their performance. Whirlpool managers complete an advertising agency performance evaluation, part of which is shown in Exhibit 3-7. These reports are compiled and reviewed with the agency at each annual meeting. Whirlpool's evaluation process covers six areas of performance. The company and the agency develop an action plan to correct areas of deficiency.

Companies develop evaluation procedures that emphasize different areas. For example, R. J. Reynolds emphasizes creative development and execution, marketing counsel and ideas, promotion support, and cost controls, without any mention of sales figures. Sears focuses on the performance of the agency as a whole in an effort to establish a partnership between the agency and the client. These and other evaluation methods are being used more regularly by advertisers. As fiscal controls tighten, clients will require more accountability from their providers and adopt formal evaluation procedures.

Exhibit 3-7 Whirlpool's ad agency performance evaluation

CREATIVE SERVICES						Marks Scored
Always 4	Often 3	Occasionally 2	Seldom 1	Never 0	NA	
1.	Agency produces fresh ideas and original approaches					
2.	Agency accurately interprets facts, strategies and objectives into usable advertisements and plans					
3.	Creative group is knowledgeable about company's products, markets and strategies					
4.	Creative group is concerned with good advertising communications and develops campaigns and ads that exhibit this concern					
5.	Creative group produces on time					
6.	Creative group performs well under pressure					
7.	Creative group operates in a businesslike manner to control production costs and other creative charges					
8.	Agency presentations are well organized with sufficient examples of proposed executions					
9.	Creative group participates in major campaign presentations					
10.	Agency presents ideas and executions not requested but felt to be good opportunities					
11.	Agency willingly accepts ideas generated by other locations/agency offices vs. being over-protective of its own creative product					
12.	Other areas not mentioned					
13.	Agency demonstrates commitment to client's business					
14.	Agency creative proposals are relevant and properly fulfill creative brief					

Value—(marks)			
Rating:	Excellent	90–100%	Total marks scored
	Good	80–89%	
	Average	70–79%	Total possible marks
	Fair	60–69%	
	Poor	below 60%	Score

ACCOUNT REPRESENTATION & SERVICE						Marks Scored
Always 4	Often 3	Occasionally 2	Seldom 1	Never 0	NA	
1.	Account representatives act with personal initiative					
2.	Account representatives anticipate needs in advance of direction by client (ie: are proactive)					
3.	Account group takes direction well					
4.	Agency is able to demonstrate results of programs implemented					
5.	Account representatives function strategically rather than as creative advisors only					
6.	Account representatives are knowledgeable about competitive programs and share this information along with their recommendations in a timely manner					
7.	Account representatives respond to client requests in a timely fashion					
8.	Account group operates in a business-like manner to control costs					
9.	Agency recommendations are founded on sound reasoning and supported factually, and appropriately fit within budget constraints					
10.	Agency is able to advise the client on trends and developments in technology					
11.	Account representatives demonstrate a high degree of professionalism in both written and oral communication					
12.	Agency presents ideas and executions not requested by felt to be good opportunities					
13.	Agency makes reasoned recommendations on allocation of budgets					
14.	Agency demonstrates commitment to client's business					
15.	There is a positive social relationship between client and agency					

Value—(marks)			
Rating:	Excellent	90–100%	Total marks scored
	Good	80–89%	
	Average	70–79%	Total possible marks
	Fair	60–69%	
	Poor	below 60%	Score

Gaining and Losing Clients

The evaluation process described above provides valuable feedback to both the agency and the client, such as indicating changes that need to be made by the agency and/or the client to improve performance and make the relationship more productive. Many agencies have had very long-lasting relationships with their clients. For example, General Electric has been with the BBDO Worldwide agency for over 80 years. Other well-known companies or brands that have had long-lasting relationships include Marlboro/Leo Burnett (50 years), McDonald's/DDB Needham Worldwide (34 years), and PepsiCo/BBDO (44 years). Exhibit 3-8 shows an ad run by Dr Pepper/Seven Up Inc. celebrating its long-term relationship with the Young & Rubicam agency.

While many successful client-agency relationships go on for a number of years, long-term relationships are becoming less common. A survey conducted a few years ago by the American Association of Advertising Agencies found that the average tenure of client-agency relationships declined from 7.2 years in 1984 to 5.3 years in the late 90s.²⁵ In recent years a number of long-standing client-agency relationships were terminated. Levi Strauss & Co. terminated its 68-year relationship with Foote, Cone & Belding, of San Francisco, in 1998 when it transferred its U.S. jeans account to TBWA/Chiat/Day. However, just three years later the company

moved the account to Bartle Bogle Hegarty, the agency that handles its advertising in Europe.²⁶ In 2002 Saturn Corp. ended its long relationship with Hal Riney & Partners, the agency that had been with the automaker since its debut in 1990, and moved to Goodby Silverstein & Partners, San Francisco.²⁷ IMC Perspective 3-3 discusses how Gateway has changed agencies four times in the past 10 years.

There are a number of reasons clients switch agencies. Understanding these potential problems can help the agency avoid them.²⁸ In addition, it is important to understand the process agencies go through in trying to win new clients.

Why Agencies Lose Clients Some of the more common reasons agencies lose clients follow:

- *Poor performance or service.* The client becomes dissatisfied with the quality of the advertising and/or the service provided by the agency.
- *Poor communication.* The client and agency personnel fail to develop or maintain the level of communication necessary to sustain a favorable working relationship.
- *Unrealistic demands by the client.* The client places demands on the agency that exceed the amount of compensation received and reduce the account's profitability.
- *Personality conflicts.* People working on the account on the client and agency sides do not have enough rapport to work well together.
- *Personnel changes.* A change in personnel at either the agency or the advertiser can create problems. New managers may wish to use an agency with which they have established ties. Agency personnel often take accounts with them when they switch agencies or start their own.
- *Changes in size of the client or agency.* The client may outgrow the agency or decide it needs a larger agency to handle its business. If the agency gets too large, the client may represent too small a percentage of its business to command attention.
- *Conflicts of interest.* A conflict may develop when an agency merges with another agency or when a client is part of an acquisition or merger. In the United States, an agency cannot handle two accounts that are in direct competition with each other. In some cases, even indirect competition will not be tolerated.
- *Changes in the client's corporate and/or marketing strategy.* A client may change its marketing strategy and decide that a new agency is needed to carry out the new program. As more companies adapt an integrated marketing communications

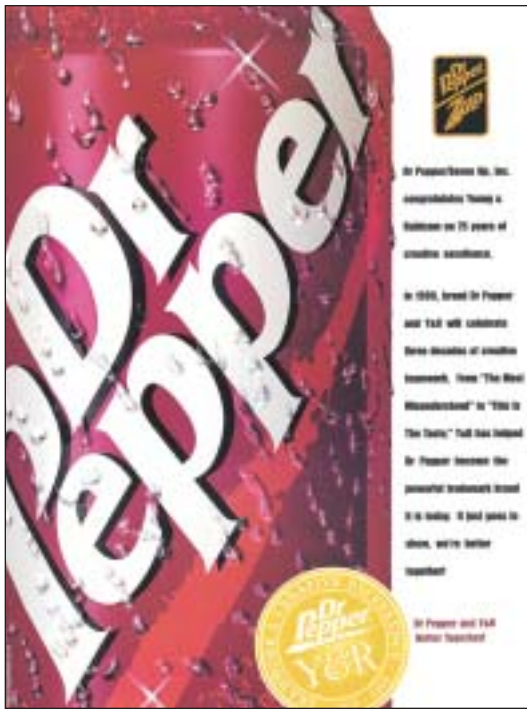


Exhibit 3-8 Young & Rubicam has been the agency for Dr Pepper for more than three decades

IMC PERSPECTIVE 3-3

Gateway Searches for the Right Ad Agency

While some companies have long-lasting relationships with their advertising agencies, others often find themselves changing agencies more frequently. Decisions to switch ad agencies can be driven by a variety of factors including increases in the client's size, changes in the markets it serves, reorganizations that lead to changes in top management, and/or changes in its advertising strategy or philosophy. One company that found itself changing agencies quite frequently during the past 10 years is Gateway, which is one of the world's largest computer companies.

Founded in 1985, Gateway was a pioneer in the build-to-order, direct-marketing segment of the personal computer business. The company's chairman and CEO, Ted Waitt, started Gateway on his family's cattle farm in Iowa and built it into a multibillion-dollar company. The Holstein dairy cows on the Waitt farm inspired the company's distinctive and nationally recognized logo and the cow-spot patterns on its boxes. The spots serve as a constant reminder of Gateway's midwestern roots and the company's values: hard work, honesty, friendliness, quality—and putting people first.

Until 1993, Gateway relied solely on print advertising that was produced in-house. However, as the company's rapid growth continued, it decided to add television ads to the media mix and to retain the services of an outside agency to work with its in-house advertising department. The agency, Carmichael Lynch of Minneapolis, hired a New York commercial director and filmmaker, Henry Corra, to direct the first Gateway commercials. Ted Waitt liked the unscripted, folksy ads that Corra was shooting, with their emphasis on "real people," and the visionary entrepreneur and artist developed a strong personal relationship.

As Gateway grew and its international sales increased, the company decided it needed a global agency. In 1997 the company moved its account to D'Arcy Masius Benton & Bowles. However, Waitt quickly became dissatisfied with DMB&B's traditional campaigns and dropped the agency after a year. He brought back Henry Corra to work on Gateway's advertising with a new agency, DiMassimo Brand Advertising, a small but aggressive creative boutique. Corra and the new agency produced a number of unscripted TV commercials throughout 1998. However, that same year Jeff Weitzen, a former AT&T executive, was brought in to run Gateway when Waitt decided to step back from the day-to-day operations of the company. The new CEO quickly moved the entire Gateway



account again—this time to McCann-Erickson, one of the largest agencies in the world.

McCann worked on the Gateway account for three years and developed the "People Rule" campaign, which included actor Michael J. Fox as a spokesperson and also featured Waitt touting the company's services for small businesses. However, in January 2001, Weitzen resigned as CEO and Waitt once again took the helm. A few days after Waitt resumed control of the company, Gateway dismissed McCann-Erickson as its agency. A Gateway spokesman described the parting as "amicable," while McCann viewed the dismissal as part of the wholesale changes and management shake-up that accompanied Ted Waitt's return.

A few days later several agencies made presentations to Waitt and the vice president of advertising for Gateway's consumer business, including former agency DiMassimo Brand Advertising; Fallon, Minneapolis; and Siltanen/Keehn. However, Gateway decided to move its advertising back in-house. Once again, Ted Waitt turned to his friend Henry Corra to direct the company's commercials. While Corra continued to direct and shoot the TV commercials for Gateway, the company also began working with yet another agency, Siltanen/Keehn, whose founders worked on Apple Computer's "Think Different" campaign at TBWA/Chiat/Day. After working with Gateway on a project basis for five months, Siltanen/Keehn became the company's agency of record for print and broadcast advertising in early 2002.

The relationship with Siltanen/Keehn was also short-lived as Gateway parted ways with the agency after only 10 months and moved its account to the Arnell Group, New York. The change was part of Gateway's decision to move away from the folksy, rural image and brand itself as a more modern and hip company. The

new advertising tagline is “Gateway a better way” and the ads show computer users in a series of vignettes with an urban look and feel. Gateway is also touting a new logo as the old one, which featured a cow-spotted shipping box, has been replaced. The new logo is a computer power button rotated on its side to form a stylized “G” but still retains a hint of a cow spot. However, the talking cow has been retired and Gateway feels that

it has found the right image for the future as well as the right agency. Hopefully the company will no longer have to keep looking for an udder agency.

Sources: Bruce V. Bigelow, “How now Gateway cow?,” *The San Diego Union Tribune*, December 8, 2002, pp. H1, 10; Richard Linnett, “Regarding Henry,” *Advertising Age*, Mar. 26, 2001, pp. 1, 37, 41; Tobi Elkin, “Troubled Gateway Turns to New Shop as Earnings Fall,” *Advertising Age*, Feb. 12, 2001, p. 4.

approach, they are looking for agencies that have integrated capabilities and can handle more than just their media advertising.

- *Declining sales.* When sales of the client’s product or service are stagnant or declining, advertising may be seen as contributing to the problem. A new agency may be sought for a new creative approach.
- *Conflicting compensation philosophies.* Disagreement may develop over the level or method of compensation. As more companies move toward incentive-based compensation systems, disagreement over compensation is becoming more commonplace.
- *Changes in policies.* Policy changes may result when either party reevaluates the importance of the relationship, the agency acquires a new (and larger) client, or either side undergoes a merger or acquisition.

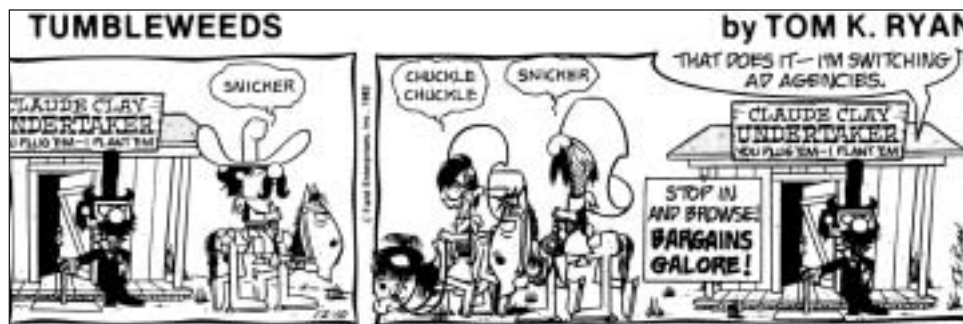
If the agency recognizes these warning signs, it can try to adapt its programs and policies to make sure the client is satisfied. Some of the situations discussed here are unavoidable, and others are beyond the agency’s control. But to maintain the account, problems within the agency’s control must be addressed.

The time may come when the agency decides it is no longer in its best interest to continue to work with the client. Personnel conflicts, changes in management philosophy, and/or insufficient financial incentives are just a few of the reasons for such a decision. Then the agency may terminate the account relationship.

How Agencies Gain Clients Competition for accounts in the agency business is intense, since most companies have already organized for the advertising function and only a limited number of new businesses require such services each year. While small agencies may be willing to work with a new company and grow along with it, larger agencies often do not become interested in these firms until they are able to spend at least \$1 million per year on advertising. Many of the top 15 agencies won’t accept an account that spends less than \$5 million per year. Once that expenditure level is reached, competition for the account intensifies.

In large agencies, most new business results from clients that already have an agency but decide to change their relationships. Thus, agencies must constantly search and compete for new clients. Some of the ways they do this follow.

Referrals Many good agencies obtain new clients as a result of referrals from existing clients, media representatives, and even other agencies. These agencies maintain



good working relationships with their clients, the media, and outside parties that might provide business to them.

Solicitations One of the more common ways to gain new business is through direct solicitation. In smaller agencies, the president may solicit new accounts. In most large agencies, a new business development group seeks out and establishes contact with new clients. The group is responsible for writing solicitation letters, making cold calls, and following up on leads. The cutbacks in ad spending by many companies during the recent recession have resulted in many agencies' pitching their services on an unsolicited basis to marketers who are satisfied with their agencies. Senior executives recognize that new business is the lifeblood of their agencies and are encouraging their business development teams to pursue advertisers who have not even put their accounts up for review.²⁹

Presentations A basic goal of the new business development group is to receive an invitation from a company to make a presentation. This gives the agency the opportunity to sell itself—to describe its experience, personnel, capabilities, and operating procedures, as well as to demonstrate its previous work.

The agency may be asked to make a speculative presentation, in which it examines the client's marketing situation and proposes a tentative communications campaign. Because presentations require a great deal of time and preparation and may cost the agency a considerable amount of money without a guarantee of gaining the business, many firms refuse to participate in "creative shootouts." They argue that agencies should be selected on the basis of their experience and the services and programs they have provided for previous clients.³⁰ Nevertheless, most agencies do participate in this form of solicitation, either by choice or because they must do so to gain accounts.

Due in part to the emphasis on speculative presentations, a very important role has developed for *ad agency review consultants*, who specialize in helping clients choose ad agencies. These consultants are often used to bring an objective perspective to the agency review process and to assist advertisers who may lack the resources, experience, or organizational consensus needed to successfully conduct a review.³¹ Because their opinions are respected by clients, the entire agency review process may be structured according to their guidelines. As you might imagine, these consultants wield a great deal of power with both clients and agencies.

Public Relations Agencies also seek business through publicity/public relations efforts. They often participate in civic and social groups and work with charitable organizations pro bono (at cost, without pay) to earn respect in the community. Participation in professional associations such as the American Association of Advertising Agencies and the Advertising Research Foundation can also lead to new contacts. Successful agencies often receive free publicity throughout the industry as well as in the mass media.

Image and Reputation Perhaps the most effective way an agency can gain new business is through its reputation. Agencies that consistently develop excellent campaigns are often approached by clients. Agencies may enter their work in award competitions or advertise themselves to enhance their image in the marketing community. In some cases the clients themselves may provide valuable testimonials. For example, Exhibit 3-9 shows an ad from IBM congratulating its agency, Ogilvy & Mather, for winning the Grand EFFIE in the annual competition sponsored by the New York American Marketing Association that recognizes the most effective advertising campaigns.

Exhibit 3-9 IBM congratulates its agency for developing an award-winning campaign



Specialized Services

Many companies assign the development and implementation of their promotional programs to an advertising agency. But several other types of organizations provide specialized services that complement the efforts of ad agencies. Direct-response agencies, sales promotion agencies, and public relations firms are important to marketers in developing and executing IMC programs in the United States as well as international markets. Let us examine the functions these organizations perform.

Direct-Response Agencies

One of the fastest-growing areas of IMC is direct marketing, where companies communicate with consumers through telemarketing, direct mail, and other forms of direct-response advertising. As this industry has grown, numerous direct-response agencies have evolved that offer companies their specialized skills in both consumer and business markets. Figure 3-10 shows the top 10 direct-response agencies (several of which, including OgilvyOne, DraftWorldwide, and Grey Direct Marketing, are divisions or subsidiaries of large ad agencies).

Direct-response agencies provide a variety of services, including database management, direct mail, research, media services, and creative and production capabilities. While direct mail is their primary weapon, many direct-response agencies are expanding their services to include such areas as infomercial production and database management. Database development and management is becoming one of the most important services provided by direct-response agencies. Many companies are using database marketing to pinpoint new customers and build relationships and loyalty among existing customers.³²

A typical direct-response agency is divided into three main departments: account management, creative, and media. Some agencies also have a department whose function is to develop and manage databases for their clients. The account managers work with their clients to plan direct-marketing programs and determine their role in the overall integrated marketing communications process. The creative department consists of copywriters, artists, and producers. Creative is responsible for developing the direct-response message, while the media department is concerned with its placement.

Like advertising agencies, direct-response agencies must solicit new business and have their performance reviewed by their existing clients, often through formal assessment programs. Most direct-response agencies are compensated on a fee basis, although some large advertisers still prefer the commission system.

Sales Promotion Agencies

Developing and managing sales promotion programs such as contests, sweepstakes, refunds and rebates, premium and incentive offers, and sampling programs is a very complex task. Most companies use a **sales promotion agency** to develop and administer

Figure 3-10 Top 10 direct-response agencies

Rank	Agency (Affiliation)	Headquarters
1	Euro RSCG Marketing Services	New York
2	Draft Worldwide	Chicago
3	OgilvyOne Worldwide Interactive	New York
4	Rapp Collins Worldwide	New York
5	Wunderman	New York
6	Digitas	New York
7	MRM Partners Worldwide	New York
8	Brann Worldwide	New York
9	Proximity Worldwide	New York
10	Grey Direct Marketing Group	New York

these programs. Some large ad agencies have created their own sales promotion department or acquired a sales promotion firm. However, most sales promotion agencies are independent companies that specialize in providing the services needed to plan, develop, and execute a variety of sales promotion programs.

Sales promotion agencies often work in conjunction with the client's advertising and/or direct-response agencies to coordinate their efforts with the advertising and direct-marketing programs. Services provided by large sales promotion agencies include promotional planning, creative, research, tie-in coordination, fulfillment, premium design and manufacturing, catalog production, and contest/sweepstakes management. Many sales promotion agencies are also developing direct/database marketing and telemarketing to expand their integrated marketing services capabilities. Sales promotion agencies are generally compensated on a fee basis. Exhibit 3-10 shows an ad for DVC, which was selected as the promotional agency of the decade a few years ago by *Promo Magazine*.

Public Relations Firms

Many large companies use both an advertising agency and a PR firm. The **public relations firm** develops and implements programs to manage the organization's publicity, image, and affairs with consumers and other relevant publics, including employees, suppliers, stockholders, government, labor groups, citizen action groups, and the general public. The PR firm analyzes the relationships between the client and these various publics, determines how the client's policies and actions relate to and affect these publics, develops PR strategies and programs, implements these programs using various public relations tools, and evaluates their effectiveness.

The activities of a public relations firm include planning the PR strategy and program, generating publicity, conducting lobbying and public affairs efforts, becoming involved in community activities and events, preparing news releases and other communications, conducting research, promoting and managing special events, and managing crises. As companies adopt an IMC approach to promotional planning, they are coordinating their PR activities with advertising and other promotional areas. Many companies are integrating public relations and publicity into the marketing communications mix to increase message credibility and save media costs.³³ Public relations firms are generally compensated by retainer. We will examine their role in more detail in Chapter 17.

Interactive Agencies

With the rapid growth of the Internet and other forms of interactive media, a new type of specialized marketing communications organization has evolved—the interactive agency. Many marketers are using **interactive agencies** that specialize in the development and strategic use of various interactive marketing tools such as websites for the Internet, banner ads, CD-ROMs, and kiosks. They recognize that the development of successful interactive marketing programs requires expertise in technology as well as areas such as creative website design, database marketing, digital media, and customer relationship management. Many traditional advertising agencies have established interactive capabilities, ranging from a few specialists within the agency to an entire interactive division. Some of the largest interactive agencies such as EuroRSCG Interaction, Grey Digital Marketing, and Ogilvy Interactive are affiliates of major agencies, while others such as Agency.com, Modern Media, and R/GA are owned by major holding companies (see Figure 3-11). Many agencies work closely with their interactive affiliates in developing integrated marketing campaigns for their clients. For example, iDeutsch, the interactive arm of the Deutsch agency, has developed the websites and online campaigns for clients such as Snapple, Almay, Mitsubishi automobiles and the California Milk Processor Board; the parent agency handles the off-line campaign in traditional media for these companies (Exhibit 3-11).

While many agencies have or are developing interactive capabilities, a number of marketers are turning to more specialized interactive agencies to develop websites and



Exhibit 3-10 DVC is one of the leading promotional agencies

Figure 3-11 Top 10 U.S. interactive agencies

Rank	Agency (Affiliation)	Headquarters
1	EuroRSCG Worldwide Interaction	New York
2	Grey Digital Marketing	New York
3	Ogilvy Interactive (WPP Group)	New York
4	Digitas	Boston
5	Modem Media (Interpublic Group)	Norwalk, Conn.
6	Answerthink Interactive Marketing	Miami
7	Agency.com (Omnicom Group)	New York
8	Tribal DDB (Omnicom Group)	New York
9	Dentropy Partners (Interpublic Group)	Cambridge, Mass.
10	R/GA (Interpublic Group)	New York

interactive media. They feel these companies have more expertise in designing and developing websites as well as managing and supporting them. Interactive agencies range from smaller companies that specialize in website design and creation to full-service interactive agencies that provide all the elements needed for a successful Internet/interactive marketing program. These services include strategic consulting regarding the use of the Internet and online branding, technical knowledge, systems integration, and the development of electronic commerce capabilities.

Full-service interactive agencies, such as AGENCY.COM, have created successful Internet marketing programs for a number of companies, including Nike, MetLife, Ford Motor Company, McDonald's, and British Airways. For example, AGENCY.COM developed the website and various online promotions that support the new global brand positioning strategy for British Airways. As the Internet becomes an increasingly important marketing tool, more companies will be turning to interactive agencies to help them develop successful interactive marketing programs. The number of interactive agencies will continue to grow, as will their importance in the development and implementation of Internet-based strategies and initiatives.

Collateral Services

The final participants in the promotional process are those that provide various collateral services. They include marketing research companies, package design firms, consultants, photographers, printers, video production houses, and event marketing services companies.

Exhibit 3-11 iDeutsch developed the website and various online promotions for its California Cheese account



CAREER PROFILE

Josh Rose

Senior Vice President, Director of iDeutsch

I graduated from the University of California at Santa Cruz in 1991. And only a year later! I got my bachelor's degree in fine art, determined to make it as an artist. I moved to Los Angeles that same year and took a temp job with The Walt Disney Company in the marketing department for their motion picture division which includes Walt Disney Pictures, Hollywood Pictures and Touchstone. It was supposed to just be a temporary job but I stayed for 4 years. My time at Disney allowed me to learn about marketing and promotion at one of the biggest marketing machines in the world. I spent much of my time with the artists and got them to teach me the basics of graphic design: photo-retouching, typography, layout and color. I bought my first Mac in 1994 and I stayed up every night teaching myself every application I could get my hands on: Photoshop, Illustrator, Freehand and Quark. I would go to Kinko's and print my work and, in about 6 months, I had a modest little portfolio of mock ads and photo-retouching work.

I was unsure as to what I wanted to do with my newfound skills but doing graphic art work gave me as much pleasure as working with clay or chalk pastels. In 1995 I offered to work for free at a small photo retouching shop called Outerspace in Santa Monica. I apprenticed there under the tutelage of a renowned re-toucher named Tom Slatky. Through the fine details of graphic design and art direction, Tom taught me how to really see and I had the opportunity to work with just about every ad agency in Los Angeles on their image-intensive movie posters and print ads. I learned how to work quick and in front of clients. I also learned how to pull the all-nighter (Hint: 7-11 Big Gulps).

Eventually, I was hired by American Cybercast which was a division of the Fattal & Collins advertising

agency. I basically reinvented myself and many more opportunities began to open for me. I became very involved with the Internet, working on the first online "shows", *The Spot* and *EON-4* (a sci-fi episodic web show) and eventually became the creative director for the largest Internet consulting firm in the country, iXL. Along the way, I created online brands for The Experience Music Project (Microsoft co-founder Paul Allen's

multi-million dollar interactive music museum in Seattle), Spinner (the internet's largest streaming music site), Playboy.com, Alanis Morissette.com, Wherehouse Music, Nike.com, and many others.

My work at iXL made it relatively easy for me to transition to Deutsch, one of the most prominent advertising agencies in the country. My role as the head of the agency's interactive division, iDeutsch, is to ensure that all of our clients are getting the most out of the Internet. This can mean different things to different accounts. For example, one of the agency's clients is The California Milk Advisory Board for whom we have developed a campaign touting Real California Cheese. Maybe you've seen the talking cows on TV in the commercials which use the tagline "Great cheese comes from happy cows. Happy cows come from California." The goal of the website (www.realcaliforniacheese.com) is to support the branding effort for California cheese so we integrated the talking cow concept into the site.

Creating a website for a company is a lot like creating an ad. You have to develop a thorough understanding of your client's business, marketing objectives and consumer goals. When you do it well, you create something that's really entertaining as well as useful. And it sure beats flipping burgers.



"My role is to ensure that all of our clients are getting the most out of the Internet."

Marketing Research Companies

One of the more widely used collateral service organizations is the marketing research firm. Companies are increasingly turning to marketing research to help them understand their target audiences and to gather information that will be of value in designing and evaluating their advertising and promotions programs. Even companies with their own marketing research departments often hire outside research agencies to perform some services. Marketing research companies offer specialized services and can gather objective information that is valuable to the advertiser's promotional programs. They conduct *qualitative* research such as in-depth interviews and focus groups, as well as *quantitative* studies such as market surveys.

Integrated Marketing Communications Services

You have seen that marketers can choose from a variety of specialized organizations to assist them in planning, developing, and implementing an integrated marketing communications program. But companies must decide whether to use a different organization for each marketing communications

function or consolidate them with a large advertising agency that offers all of these services under one roof.

As noted in Chapter 1, during the 1980s many of the large agencies realized that their clients were shifting their promotional dollars away from traditional advertising to other forms of promotion and began developing IMC capabilities. Some did this through mergers and acquisitions and became superagencies consisting of advertising, public relations, sales promotion, and direct-response agencies.

Many large agencies are continuing to expand their IMC capabilities by acquiring specialists in various fields. All the major agency holding companies either own or have substantial investments in interactive and direct-response agencies as well as public relations firms. For example, Omnicom Group acquired Fleishman-Hillard Inc.; WPPGroup bought Hill & Knowlton; and Interpublic Group purchased Golin/Harris International. Nonadvertising business accounts for nearly half of Interpublic's revenue, and the company, along with its competitors, continues to acquire public relations firms, direct-marketing companies, interactive agencies, and other specialized marketing services firms.³⁴

Pros and Cons of Integrated Services

It has been argued that the concept of integrated marketing is nothing new, particularly in smaller companies and communication agencies that have been coordinating a variety of promotional tools for years. And larger advertising agencies have been trying to gain more of their clients' promotional business for over 20 years. However, in the past, the various services were run as separate profit centers. Each was motivated to push its own expertise and pursue its own goals rather than develop truly integrated marketing programs. Moreover, the creative specialists in many agencies resisted becoming involved in sales promotion or direct marketing. They preferred to concentrate on developing magazine ads or television commercials rather than designing coupons or direct-mail pieces.

Proponents of integrated marketing services contend that past problems are being solved and the various individuals in the agencies and subsidiaries are learning to work together to deliver a consistent message to the client's customers. They argue that maintaining control of the entire promotional process achieves greater synergy among each of the communications program elements. They also note that it is more convenient for the client to coordinate all of its marketing efforts—media advertising, direct mail, special events, sales promotions, and public relations—through one agency. An agency with integrated marketing capabilities can create a single image for the product or service and address everyone, from wholesalers to consumers, with one voice.

But not everyone wants to turn the entire IMC program over to one agency. Opponents say the providers become involved in political wrangling over budgets, do not communicate with each other as well and as often as they should, and do not achieve synergy. They also claim that agencies' efforts to control all aspects of the promotional program are nothing more than an attempt to hold on to business that might otherwise

be lost to independent providers. They note that synergy and economies of scale, while nice in theory, have been difficult to achieve and competition and conflict among agency subsidiaries have been a major problem.³⁵

Many companies use a variety of vendors for communication functions, choosing the specialist they believe is best suited for each promotional task, be it advertising, sales promotion, or public relations. While many ad agencies are working to master integration and compete against one another, they still must compete against firms that offer specialized services. As marketing consultant Jack Trout notes, “As long as there are a lot of specialized players, integrating an agency will be tricky. Specialists walk in the door and say ‘this is all we do and we’re good at it,’ which is a hell of an argument. An agency that has all marketing operations in-house will never be perceived as the best in breed.”³⁶

Responsibility for IMC: Agency versus Client

Surveys of advertisers and agency executives have shown that both groups believe integrated marketing is important to their organizations’ success and that it will be even more important in the future.³⁷ One agency executive recently noted that 75 percent of the requests for proposals the agency now receives are from clients seeking total communication solutions.³⁸ However, marketers and agency executives have very different opinions regarding who should be in charge of the integrated marketing communications process. Many advertisers prefer to set strategy for and coordinate their own IMC campaigns, but most agency executives see this as their domain.

While agency executives believe their shops are capable of handling the various elements an integrated campaign requires, many marketers, particularly larger firms, disagree. Marketing executives say the biggest obstacle to implementing IMC is the lack of people with the broad perspective and skills to make it work. Internal turf battles, agency egos, and fear of budget reductions are also cited as major barriers to successful integrated marketing campaigns.³⁹

Many ad agencies are adding more resources to offer their clients a full line of services. They are expanding their agencies’ capabilities in interactive and multimedia advertising, database management, direct marketing, public relations, and sales promotion. However, many marketers still want to set the strategy for their IMC campaigns and seek specialized expertise, more quality and creativity, and greater control and cost efficiency by using multiple providers.

Most marketers do recognize that ad agencies will no longer stick primarily to advertising and will continue to expand their IMC capabilities. There is an opportunity for agencies to broaden their services beyond advertising—but they will have to develop true expertise in a variety of integrated marketing communications areas. They will also have to create organizational structures that make it possible for individuals with expertise in a variety of communications areas to work well together both internally and externally. One thing is certain: as companies continue to shift their promotional dollars away from media advertising to other IMC tools, agencies will continue to explore ways to keep these monies under their roofs.

Summary

The development, execution, and administration of an advertising and promotions program involve the efforts of many individuals, both within the company and outside it. Participants in the integrated marketing communications process include the advertiser or client, ad agencies, media organiza-

tions, specialized marketing communications firms, and providers of collateral services.

Companies use three basic systems to organize internally for advertising and promotion. Centralized systems offer the advantages of facilitated communications, lower personnel require-

ments, continuity in staff, and more top-management involvement. Disadvantages include a lower involvement with overall marketing goals, longer response times, and difficulties in handling multiple product lines.

Decentralized systems offer the advantages of concentrated

managerial attention, more rapid responses to problems, and increased flexibility, though they may be limited by ineffective decision making, internal conflicts, misallocation of funds, and a lack of authority. In-house agencies, while offering the advantages of cost savings, control, and increased coordination, have the disadvantage of less experience, objectivity, and flexibility.

Many firms use advertising agencies to help develop and execute their programs. These agencies may take on a variety of forms, including full-service agencies, creative boutiques, and media buying services. The first offers the client a full range of services (including creative, account, mar-

keting, and financial and management services); the other two specialize in creative services and media buying, respectively. Agencies are compensated through commission systems, percentage charges, and fee- and cost-based systems. Recently, the emphasis on agency accountability has increased. Agencies are being evaluated on both financial and qualitative aspects, and some clients are using incentive-based compensation systems that tie agency compensation to performance measures such as sales and market share.

In addition to using ad agencies, marketers use the services of other marketing communication specialists, including

direct-marketing agencies, sales promotion agencies, public relations firms, and interactive agencies. A marketer must decide whether to use a different specialist for each promotional function or have all of its integrated marketing communications done by an advertising agency that offers all of these services under one roof.

Recent studies have found that most marketers believe it is their responsibility, not the ad agency's, to set strategy for and coordinate IMC campaigns. The lack of a broad perspective and specialized skills in nonadvertising areas is seen as the major barrier to agencies' increased involvement in integrated marketing communications.

Key Terms

clients, 69	category management system, 73	media buying services, 83	percentage charges, 88
advertising agency, 69	in-house agency, 75	commission system, 85	financial audit, 88
media organizations, 70	billings, 77	negotiated commission, 86	qualitative audit, 88
specialized marketing communications services, 70	superagencies, 77	fixed-fee method, 87	direct-response agency, 94
collateral services, 70	full-service agency, 79	fee-commission combination, 87	sales promotion agency, 94
advertising manager, 71	account executive, 79	cost-plus system, 87	public relations firm, 95
centralized system, 71	copywriters, 82	incentive-based system, 87	interactive agencies, 95
decentralized system, 72	departmental system, 82		
brand manager, 72	group system, 82		
	creative boutique, 83		

Discussion Questions

- Evaluate the decision by BMW and its advertising agency, Fallon Worldwide, to develop short-films that can be viewed at the BMWFilms.com website. Do you think more companies will be using the "advertainment" concept to promote their products?
- Identify the various organizations that participate in the integrated marketing communications process and briefly discuss their roles and responsibilities.
- What are some of the specific responsibilities and duties of an advertising manager under a centralized advertising department structure? Why is an advertising manager needed if a company uses an outside agency?
- Discuss the pros and cons of using an in-house advertising agency. What are some of the reasons why companies might change from using an in-house agency and hire an outside agency?
- Discuss some of the reasons why traditional advertising agencies have been developing more integrated marketing communication capabilities. What changes might traditional agencies have to make to improve their IMC capabilities?
- Why might a company choose to use a creative boutique rather than a larger, full-service agency? Find an example of a company that uses a creative boutique and discuss why the decision to use a smaller agency may be appropriate for this firm.
- Discuss the various methods by which advertising agencies are compensated. What factors will determine the type of compensation arrangement a company uses with an agency?
- Why are many companies moving away from the traditional commission system and using

incentive-based compensation for their advertising agencies? Why might an ad agency be reluctant to accept an incentive-based compensation system?

9. IMC Perspective 3-2 discusses how Gateway has changed advertising agencies five times in the

past ten years. Discuss the various reasons why Gateway has changed agencies so often and how the changes may have impacted its advertising.

10. Discuss the role of agencies that perform specialized marketing communication

services such as public relations firms, direct response, sales promotion, and interactive agencies. Why might a company choose to use these specialized agencies rather than using a full service agency for all of its integrated marketing communication functions?