

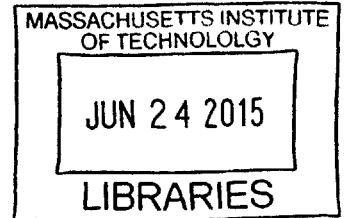
**The strategic transformation of  
advertising agencies in the digital era:  
The case of Cheil Worldwide in Korea**

By

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B.A. French Language and Literature  
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**ARCHIVES**



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Submitted to the MIT Sloan School of Management on May 8, 2015  
in partial fulfillment of the requirements for  
the degree of Master of Science in Management Studies

**1. ABSTRACT**

Cheil Worldwide is the number one marketing and advertising agency in Korea. Throughout its history, it heavily relied on its parent company and major client, Samsung and on traditional media advertising for its revenue. However, as the digital medium has become an important platform for the advertising industry, Cheil Worldwide is facing strategic challenges in this field. Cheil Worldwide needs to break out of its domestic boundaries and adapt into the digitalized industry and seek competitive advantage over its competitors.

This thesis analyzes the strategic changes that other leading advertising agencies have made and makes recommendations for Cheil Worldwide to map its future path and recreate the value positioning of the company. Cheil Worldwide can strengthen its position globally and use this study to plan for its growth. It will specifically answer the question: "Will Cheil Worldwide survive in the digitized advertising industry?" by comparing leading advertising agencies with Cheil Worldwide and highlight issues dealing with digital agencies.

Thesis Supervisor: Juanjuan Zhang  
Title: Epoch Foundation Professor of International Management

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### **3. Introduction**

The Internet has influenced both people and industries in various ways and many industries have either emerged or disappeared as the Internet changed the dynamics of business. The advertising industry was also radically influenced by the introduction of the Internet. As the importance of digital media has grown, consumers spend more time on the Internet, moving away from traditional media such as newspapers and magazines. Adapting to the new digitalized environment, many specialized agencies have emerged and new talent have been recruited to work on digital campaigns in existing advertising agencies. While new agencies emerged equipped with technical expertise and fresh ideas, established marketing and advertising agencies faced a challenge to compete with these new incumbents and reform their strategy to move into the digital era.

This thesis will be a strategic study of an advertising agency in South Korea, Cheil Worldwide (Cheil). Cheil is a leading advertising agency in South Korea and this paper will analyze market and industry changes, followed by a comparative analysis of strategy changes made by other leading advertising agencies after the emergence of digital agencies and finally, it will recommend a competitive strategic plan for Cheil.

### **4. Thesis Scope and outline**

The purpose of this thesis is to do a thorough analysis of a leading advertising agency in Korea. Through a case study of its strategic changes and organizational reformation, it could be used as a guide for other agencies in the industry to benchmark for their strategic decision-making. The hypothesis of this thesis is that traditional advertising agencies should seek their own competitive edge by organizational reformation and re-

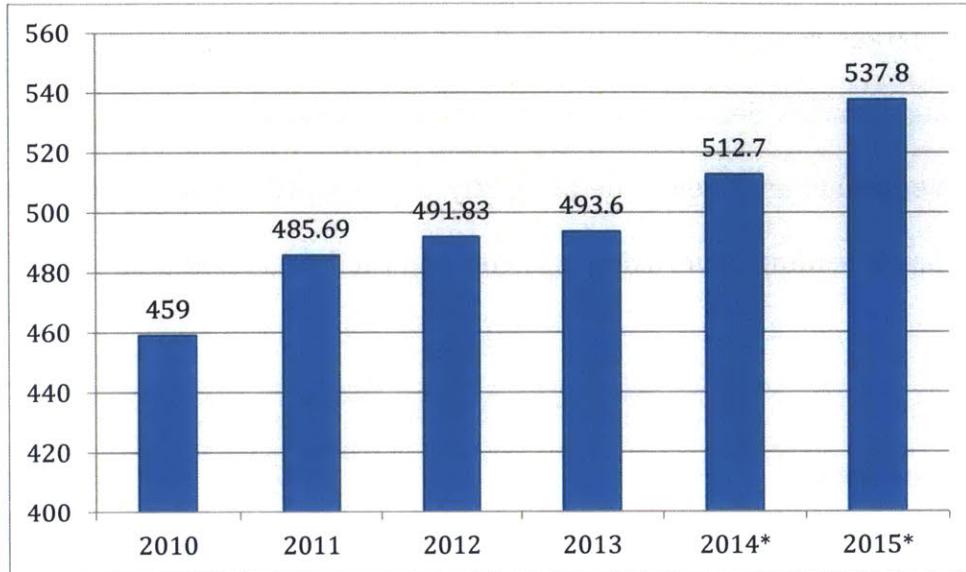
defining their role in the industry. To prove the hypothesis, first, changes in the industry will be analyzed with market research data on media spending and a study of newly formed digital advertising agencies. Second, the Korean market specifically will be studied with the case of Cheil Worldwide analyzed in detail. Lastly, a comparative analysis will be done on a few of the world's leading advertising agencies and their organizational reform over time.

## **5. Advertising industry overview**

The advertising industry consists of agencies providing advertising services including display and online advertising, therefore the industry value reflects income of the agencies from all the related services (Marketline, 2012, p.9). Overall, the global advertising industry stagnated from 2007 to 2011 reflecting the global financial downturn, but a Marketline industry report (2012) suggests that it is expected to increase again until by 2016. The table 1 shows global advertising spending from 2011 to 2015.

To interpret the increase of advertising spending in more detail, media spending patterns should be analyzed as the advertising industry is closely related to media and it reflects the recent trends of the advertising industry. The most prevalent medium for advertising has been TV for a long time, and even though its share has decreased dramatically over time, many experts predict that it would still be a dominant medium in the future. However, the importance of digital media will increase, predicted to surpass TV in 2018 (PWC, 2013). According to ZenithOptimedia (2014), the Internet's share of U.S. ad spending accounted for nearly one-fourth (24.6%) in 2014 and is projected to be 30.7% in 2016, up from 6.0% in 2005.

&lt;Table 1, Global advertising spending from 2011 to 2015&gt;



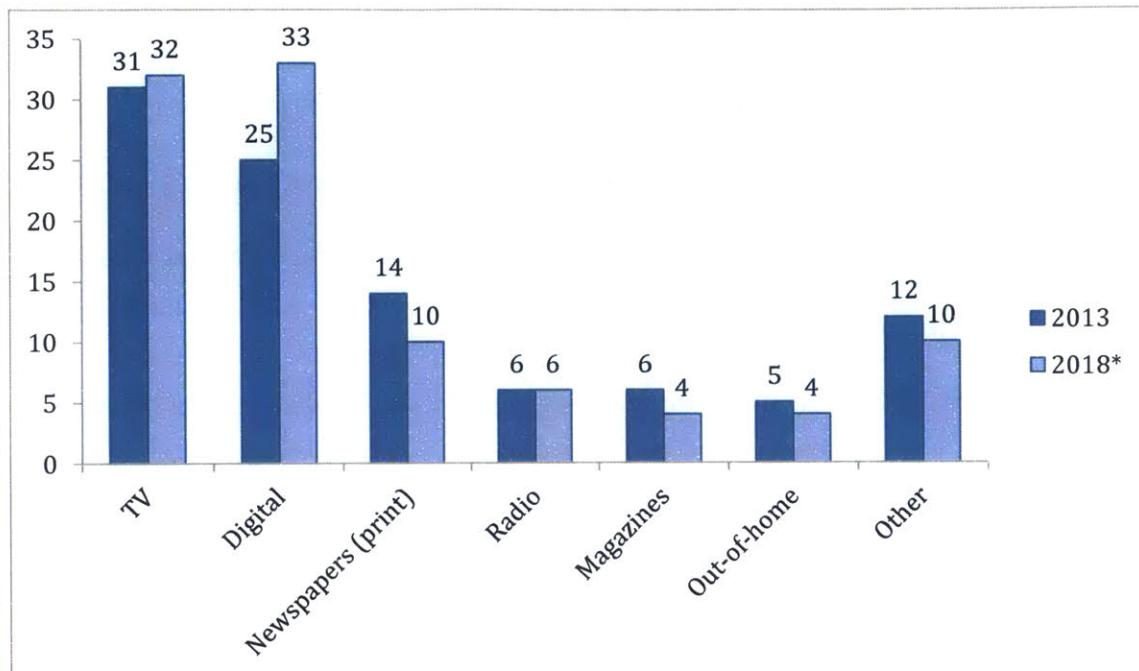
\* Unit: billions of U.S. dollars

\* Source: GroupM, December 2014

\* This statistic presents global advertising spending from 2010 to 2013 and provides a forecast for 2014 and 2015. GroupM projected that global advertising spending would amount to approximately 537.8 billion U.S. dollars in 2015.

The first online advertising started in 1993 by Global Network Navigator, who decided to sell space on the Internet (Borne, 2013). It has been over 20 years since the first appearance of online advertising, and now digital media has impacted the advertising industry the most. While TV is still maintaining its dominance, digital media has eroded the importance of print media such as magazines and newspapers. The growth of the industry accounts for increasing digital revenues. According to AdAge's agency report in 2014, in the U.S., 35.3% of advertising agency revenue comes from digital campaigns, and it will continue to grow to take up share from non-digital revenues. The increase in staffing for digital media also supports this trend in the advertising industry. U.S. digital-media employment increased 12.5% in 2013 (Bureau of Labor Statistics) while employment in ad and media agencies only increased by 3.7% and 1.3% respectively.

&lt;Table 2, Distribution of advertising spending worldwide 2013-2018, by medium&gt;



\* Unit: %

\* Source: PwC, 2013

\* Data excludes online/mobile advertising from the segments but includes it in the digital advertising total.

In brief, the advertising industry is still growing thanks to digital media, but over the past 20 years, the dynamics in the industry have influenced many advertising agencies' paths and strategic moves. Many new specialized digital agencies such as IBM Interactive Experience and HUGE have been established, threatening the presence of traditional advertising agencies, and influencing them to change their strategies.

## 6. Evolution of advertising agencies

### 6-1) What do advertising agencies do?

In the Collins dictionary, an advertising agency is defined as an organization that creates advertising material, contracts for publication space, and sometimes undertakes

market research on behalf of its clients. The advertising industry started far back in the 1840s, when Volney Palmer first started his innovative work as an advertising man (Vos, 2013). In the early days, advertising agencies did not create ads, but rather simply served as a broker of advertising space in newspapers and magazines. Ever since then, many advertising agencies have formed and added creative services, playing a crucial role in the development of marketing for modern society.

A more updated definition of an advertising agency's role was stated by Francis (2010) in his article "Role and Function of Advertising Agencies", as working alongside the clients to develop and sustain the brands that they mutually serve, through consumer understanding and insight and through creative and media delivery skills to provide best advice and the best execution thereof to those clients for the advertising of those brands.

As overall communication of the brand is the major role of an advertising agency, traditional advertising agencies provide a range of services from defining target audiences, planning for the strategy, preparing the right creatives and finally placing the ads in the media accordingly. However, the functions of an advertising agency can be extended to providing services related to creating communication campaigns. Some large communication firms provide allied services such as merchandising, public relations, organizing exhibitions and fairs, planning and organizing special events (event management) and sports and promotion planning (Francis, 2010).

In terms of market entry, according to the Marketline (2013), an advertising agency generally needs low assets but relies highly on knowledge and creativity, (p.14) which in other words, means that if a new agency wants to enter, it may need relatively low capital but needs strong knowledge about consumers or media around them. This moved the

industry to embracing new functions and roles, as it was critical for new entrants to gain their own competitive edge. Later, this characteristic of the industry enabled many new digital agencies to enter the market, threatening the dominance of existing traditional advertising agencies.

### **6-2) Introduction of digital advertising agencies**

As the “publication space” for advertisers has evolved over the years, the dynamics of the industry has also evolved. The biggest paradigm shift for the industry was the rise of the Internet. Many advertising agencies reformed their strategies and organizational structures to fit the new medium and due to the boom in technology development, it became easier for new agencies to establish themselves with expert knowledge about digital media, increasing rivalry in the market. Consequently, while traditional agencies created teams to serve their clients’ new needs, many interactive agencies appeared in the industry. The term ‘interactive agency’ can be found in many articles and reports, but to define how digital agencies differ from traditional advertising agencies, a definition of digital advertising needs to be established first.

Digital advertising can simply be defined as the promotion of products or brands via one or more forms of electronic media (businessdictionary.com, retrieved on 25<sup>th</sup> Feb. 2015). However, as digital media has evolved over time, digital advertising has evolved to include all marketing strategies of a business that is communicated through the Internet: digital social media, mobile phones and digital television and radio channels. Often these new advertising modes involve interaction with the consumers, and that is why it also called interactive advertising. Interactive advertising can also be defined as follows: “the paid and unpaid presentation and promotion of products, services and ideas by an

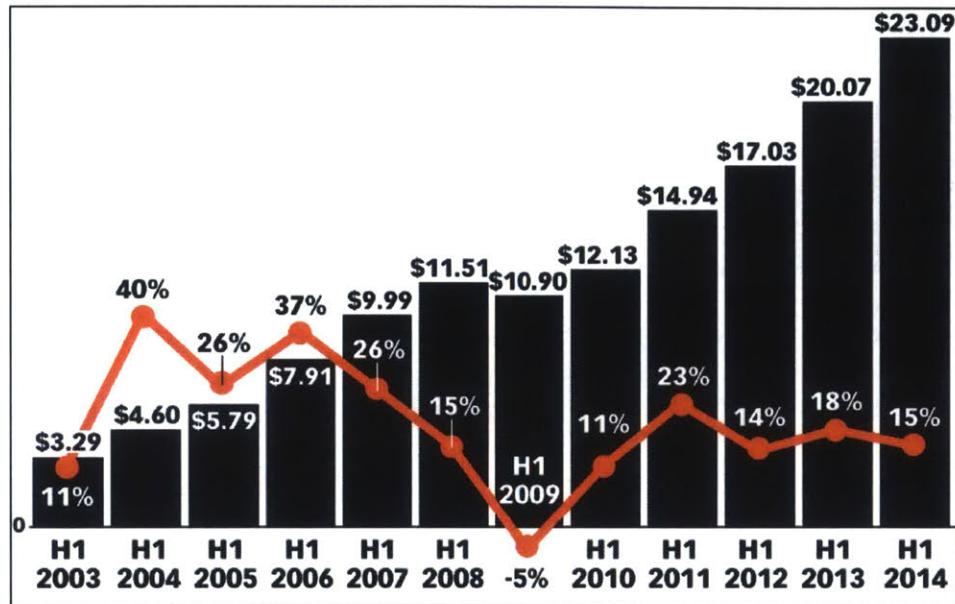
identified sponsor through mediated means involving mutual action between consumers and producers" (Leckenby & Li, 2000). Digital media has allowed more interactions with consumers as they can respond online almost simultaneously with the advertisement viewing and marketers can respond accordingly. Thus by combining the above definitions of digital advertising and interactive advertising, a digital agency can be defined as an agency that provides a range of services from web design to keyword search advertising, helping its clients to communicate its product or brand interactively with consumers via digital media and creating adequate digital marketing strategies for advertisers.

Ever since Global Network Navigator started to sell spaces on the Internet, many more special digital agencies have been established, creating a significant new segment within the advertising industry. The first of its kind dates back to the 1990s, but the digital agency's peak was in the early to mid 2000s. This can be backed up by the fact that first, an interactive marketing & media fact book was published by the advertising industry's top publication Advertising Age in 2006, (Advertising Age, 2006, p.3). Second, although most of the world's top ranked digital agencies were founded at the end of the 1990s, large advertising conglomerates such as WPP and Ogilvy started to acquire many of them starting from mid-2000s (Advertising Age, 2015). Third, since the mid-2000, digital media spending by advertisers increased significantly. In the case of the U.S. market, from 2003 to 2004, digital media spending increased by 40% compared to traditional media spending within the same period (eMarketers.com, 2014). Lastly, the Journal of Interactive Advertising, the first academic periodical specially dedicated to digital marketing area was first released in Fall 2000, noting the growing significance of interactive marketing activities.

When it first appeared in the market, a digital agency was often called an “interactive” agency. It was called an interactive agency as the Internet provided the means for “interaction” between buyers and sellers to such a degree that some have suggested this is the defining characteristic of the Internet (Leckenby and Li, 2000). To deal with “interactive” media, digital agencies needed technical expertise as well as concrete marketing knowledge. Therefore, former traditional agency employees with experience in using the Internet as a medium established many of the first digital agencies. As technology for the Internet accelerated, “interactive media” meant more than just the Internet. Mobile phones and interactive kiosks are also regarded as interactive media (Leckenby and Li, 2004), and “convergence” was making it harder to distinguish between personal computers and mobile devices, rapidly making new specialized digital agencies to form and provide differentiated advertising services to their clients.

The analysis of changes in ranking and the number of advertising agencies over time illustrates how specialized digital agencies have influenced traditional agencies and its effect on the overall trend in the industry.

&lt;Table 3. U.S. Digital Ad Spending, H1 2003-H1 2014&gt;



\* Interactive Advertising Bureau (IAB) and PwC US, "IAB Internet Advertising Revenue Report H1 2014," Oct 20, 2014

\* Digital ad data includes categories as defined by IAB/PwC—display ads (such as banners), search ads (including paid listings, contextual text links, paid inclusion and site optimization), rich media, online video (in-page, pre-roll and post-roll), classified ads and auctions, sponsorships, lead generation, email (banner ads, links or advertiser sponsorships that appear as ads within an email or the entire email for email newsletters, marketing campaigns and other commercial email communications) and mobile (static or rich media display ads, text messaging, search ads and audio/video spot appearing within mobile websites, apps, text messaging services or within mobile search results).

### 6-3) Changes in the establishment of digital advertising agencies over time

To analyze the changes in the establishment of advertising agencies, this thesis used Advertising Age's Agency Report, which is published annually. This data is gathered by Advertising Age's Data Center, which contains a ranking of agencies. The report includes rankings and background information on nearly 1,000 U.S. and worldwide agencies.

The ranking of digital agencies first appeared in a 1999 agency report listing the top 100 U.S.-based interactive agencies. In a 2002 agency report, the ranking showed the top

200 agencies, showing a big boost in the digital advertising industry. Also, the total revenue of the top 50 agencies suddenly peaked in 2000. This can be accounted for by large companies starting to expand their traditional budget to include online media, and also by the accumulation of around \$2 billion in revenues just before the burst of the dot.com bubble in the first quarter of 2000 (Nitke, 2000) However from 2006, the ranking was shortened down to the top 50, as many of the small agencies have either disappeared or been acquired by bigger advertising companies over time. As U.S. is the leading digital advertising market, the analysis of U.S. digital ad spending would be a good indicator for the overall market trend. The table 4 in the next page shows the number of top interactive agencies in the U.S. listed in Advertising Age's Agency Report from 1999 to 2014. It shows that the percentage of agencies with their parent companies increased from 25% to 86%, showing that there has been a considerable amount of consolidation and acquisition activity of digital agencies by bigger advertising companies over the last ten years.

The acquisitions of digital agencies by worldwide firms over the past few years have been the main source of expansion in the digital advertising industry. According to Advertising Age's Agency Report 2014, 35.3% of total U.S. advertising agency revenue in 2013 consists of digital revenue; digital revenue alone surging 13.8% from 2012 (Johnson, 2014). To cope with the changes and provide what clients want, many worldwide companies exercised in mergers and acquisitions to expand their networks and expertise (Burka, 2013). This trend has changed the dynamics of the industry, as big holdings companies acquire the top agencies and now huge conglomerate advertising agencies are dominating the market.

&lt;Table 4. US Digital Ad Spending, H1 2003-H1 2014&gt;

Year	No. of agencies listed	No. of agencies with parent group company	% of agencies with parent company from the ranking	Top 50 agencies' revenue total
1998	100	N/A	N/A	1,026,157,374
1999	100	N/A	N/A	1,854,422,612
2000	173	N/A	N/A	4,455,449,000
2001	200	50	25%	1,939,795,000
2002	100	44	44%	1,235,168,000
2003	100	N/A	N/A	719,921,000
2004	133	N/A	N/A	1,289,000,000
2005	50	23	46%	1,963,100,000
2006	50	23	46%	2,780,500,000
2007	50	34	68%	3,714,019,000
2008	50	34	68%	3,968,830,000
2009	50	36	72%	4,315,054,000
2010	50	37	74%	5,652,363,000
2011	50	38	76%	6,985,000,000
2012	50	41	82%	7,720,980,000
2013	50	43	86%	8,617,700,000

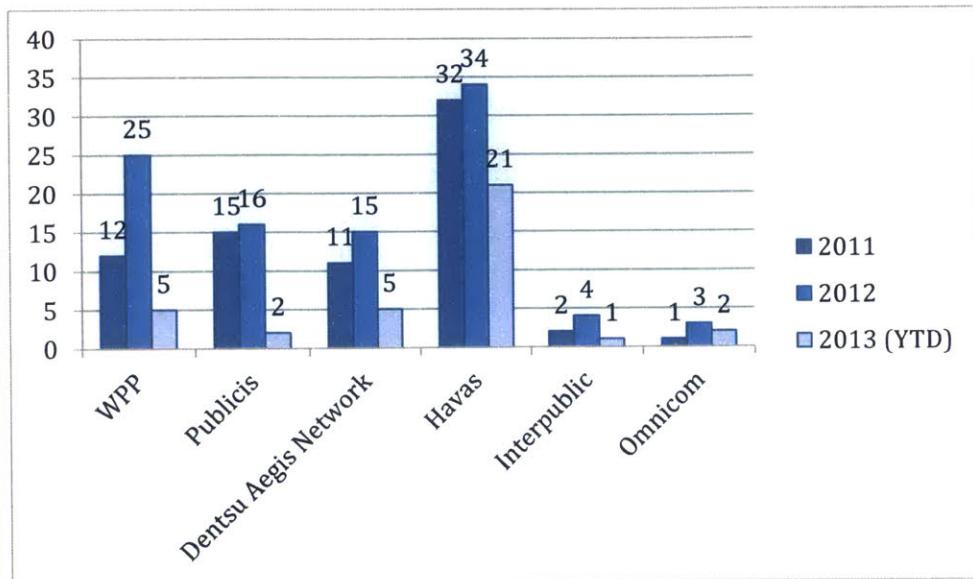
\* Unit: USD

\* Source: Advertising Age, Agency Report 1999~ 2014, U.S. top digital agency ranking

\* Revenues are from online advertising creative and media planning, marketing-related website development and online direct marketing.

As stated in the World Advertising Industry Report by Marketline (2015), the global advertising industry seems fragmented; however the 'big four' agencies - Omnicom, WPP, Interpublic, and Publicis - hold a substantial aggregate market share of close to 50%, and the rest of the market consists of small to medium sized agencies that are eager to gain presence in the competition. As the market is now going towards digital, this is true for the digital segment as well. The table below illustrates the number of digital agency acquisitions by top holdings companies through the years 2011-2013.

<Table 5. Number of digital agency acquisitions worldwide from 2011 to 2013, by agency>



\*Source: Recma: Various sources (DARD)

\*Region: Worldwide

\*Published by adplayers.ro, August 2013

It is clear that many traditional companies decided to buy the digital agencies to deal with changes in the industry. This move was inevitable for them so as not to neglect the importance of digital services for their clients, and the digital agencies needed advertising expertise to strategize the marketing plan into a broader perspective. Therefore, many specialized digital agencies were also in favor of being acquired and traditional agencies took bold measures to acquire them. However, some see this acquisition activity as just an investment, as many agencies within the holding companies often compete with each other and many clients believe that they seldom bring synergies after the acquisitions (Liewehr, 2014). To counter this argument, some traditional agencies have managed their own strategies by trying to transform themselves into digital giants.

Before analyzing Cheil Worldwide in South Korea, two leading agencies, WPP Group and Dentsu Inc. of Japan are studied in terms of their organizational changes and digital

strategies. WPP Group is the leading traditional agency of the world and the case illustrates how a big corporate has survived the ever changing dynamics of advertising industry. Dentsu Inc. resembles the most with Cheil Worldwide as both are leading agencies of the country and Japan and Korea share similar media and market characteristics, therefore its strategies and structure would give implications for Cheil Worldwide's future strategic movements.

## **7. Changes in traditional advertising companies – case studies**

### **7-1) WPP Group and its organizational changes**

#### **7-1-1) WPP Group overview**

WPP Group (WPP) is a London-based multinational advertising agency, with reported revenue of \$17.3 billion in 2013. It is ranked as the world's largest agency in 2013 with almost 120,000 employees worldwide (AdAge Agency Report 2014). This multinational advertising conglomerate had a significant presence in the market when it acquired the Ogilvy Group in 1989. WPP placed itself as the number one advertising agency group in 1990, and since then it kept on investing in marketing-related firms including the research firm Mindshare in 1997 and another advertising agency Young & Rubicam Group in 2000 (WPP.com retrieved on 23<sup>rd</sup> Feb. 2015).

As a leading advertising agency in the world, WPP services 351 of the Fortune Global 500 companies, including British American Tobacco PLC, Colgate Palmolive, Dell Inc., Ford Motor Company and Unilever PLC. The 10 largest clients of WPP accounted for 17.4% of the company's overall revenue in 2012. WPP surpassed Omnicom Group as the largest

agency in 2008, with the help from the revenue contribution of Taylor Nelson Sofres, a U.K.-based market-research firm that WPP bought in October 2008.

### **7-1-2) Key driver: Mergers & Acquisitions**

Throughout its history, the WPP Group shaped the company with mergers and acquisitions. WPP was established in 1986 by Martin Sorrell, who was a finance director of the advertising agency Saatchi & Saatchi PLC. Sorrell played an important role in the agency's acquisitions, first starting to make a number of acquisitions focusing on developing below-the-line (BTL) capability, which is doing promotions and activities other than just on main media TV, Radio and print media which requires more touch points with the consumers. Acquisitions included design houses, incentive specialists, sales promotion consultants, and an audio-visual company (Ghobadia & O'Regan, 2011). A typical acquisition of WPP was done in a five-year "earn-out" basis, where the buyout cost was spread over a period of years.

Originally, its strategy was focused on geographical expansion. When it first entered the U.S. market in 1987, WPP acquired several marketing services companies. With successful acquisitions of BTL marketing firms, its major move was in 1987 when it bought the JWT Group Inc. This decision was viewed with skepticism in the beginning, but after approximately three years, the JWT Group increased WPP's profit margin by 10 percent (Ghobadia & O'Regan, 2011). Now it has successfully expanded into more than 100 countries worldwide, for a number of brands covering advertising, media, information, public relations, design and many more. WPP has proven that even when a creative firm increases its size, it can still be successful.

### **7-1-3) Dealing with digital emergence**

Until the early 2000s, the key goal for its business was to enter into fast growing geographical areas of Asia Pacific, Latin America, Africa, Middle East and Central and Eastern Europe to become a true worldwide group. But as changes in digital media drew the industry's attention and many specialized digital agencies were founded, WPP directed its focus towards digital and interactive business. Its first strategic decision was made when it acquired ad network 24/7 Media with nearly \$650 million in 2007. Since then, WPP became the most digitalized advertising agency in the world, now having 34 different digital agencies under its umbrella, and ranked sixth in the top 50 largest U.S. digital-agency list, including Wunderman, ranked at number four by revenue (WPP.com retrieved on 26<sup>th</sup> Feb. 2015).

As an industry leader and having a competitive edge and experience in acquisition, WPP's role as an advertising agency did not change. It kept its strategy of buying small and sometimes, big agencies, but what it has focused on as a core business has evolved with time. The company has strengthened its presence in the digital media market over the years. Now WPP is even expanding its acquisition to technology platforms that could provide its clients with a single comprehensive resource to reach customers. WPP has established WPP Digital, through which it will make acquisitions and strategic investments in companies that improve the Group's understanding of digital space and provide access for WPP companies and their clients to a portfolio of digital experts (WPP.com retrieved on 28<sup>th</sup> Feb. 2015).

WPP's strong presence in the segment will guarantee its growth in the near future together with the whole industry going towards a complete transition into digitalization.

WPP is a standard example of a traditional advertising agency adapting into the market with the emergence of digital agencies through an acquisitions strategy.

<Table 6. Key acquisition statistics of WPP Group>

Company acquired	Date	City	Annual revenue in £
TNS	12/11/2008	London	£1,068,000,000
AKQA Holdings	20/06/2012	San Francisco	£141,767,386
24/7 Real Media	17/05/2007	New York	£124,332,120
Commarco GmbH	19/04/2011	Hamburg	£108,060,400
DTDigital	19/01/2012	Melbourne	£92,407,315
Team Y&R Holdings	29/02/2008	UAE	£62,082,337
Nanjing Yindu	20/12/2011	Nanjing	£42,376,191
Barrows	03/04/2012	Durban	£38,197,879
Paino Trio Comunicado	04/09/2007	Sao Paulo	£29,200,771
Blast Radius	24/10/2007	Vancouver	£26,322,721

Total Acquisition Payments over 5 years	No. of Acquisitions
2013	\$345.8 million
2012	\$929.8 million
2011	\$854.2 million

\*Source: Adage.com

\*Unit: 1) UK£ 2) USD

## 7-2) DENTSU and its organizational changes

### 7-2-1) DENTSU inc. overview

DENTSU Inc. (Dentsu) is the world's fifth largest advertising agency following the WPP Group, Omnicom Group, Publicis Groupe and Interpublic Group of Cos., with revenues of \$5,782 million USD in 2013 (Agency Report 2014). Dentsu is based in Tokyo and maintains the top share in the Japanese advertising market, which accounts for 11% of the global market. Dentsu has about 38,000 employees worldwide as of March 2014, serving more than 11,000 clients in 110 different countries ([www.dentsu.com](http://www.dentsu.com), retrieved on 27<sup>th</sup> Feb.2015).

Dentsu was founded in 1901 as Japan Advertising Ltd. and Telegraphic Service Co. Telegraphic Service Co. changed its name to Japan Telegraphic Communication Co. Ltd. in 1906. Since then, Dentsu launched communication and advertising operations, leading Japan's advertising industry. Dentsu's main revenue source is from Japan itself, with 7,500 employees in Japan. The key structure of Dentsu consists of Dentsu Inc. which mainly serves businesses in Japan, and Dentsu Aegis Network Ltd, which works as the headquarters for its global business. Dentsu acquired Aegis Group in March 2013, and now the company is expanding rapidly outside of local boundaries.

Currently with Tadashi Ishii as president and CEO, the key strength of Denstu is that it is the world's largest advertising agency based on non-consolidated gross profit in 2012 (Agency Report, 2013) and has a strong market position in Japan and Asia. With the fact that it has been established for more than 100 years, its strong brand image of a traditional advertising agency with creativity is its competitive edge. Dentsu controls around 30% of all mass media advertising in Japan and has a staggering portfolio of more than 6,000 clients in Japan - by far it is the most dominant player in the Japanese advertising industry.

### **7-2-2) Key driver: Strong foundation in advertising**

Dentsu highlights its strength as being oriented toward "innovative creativity," which draws on a wealth of talent including art directors, copywriters, television commercial planners and communication strategists ([www.dentsu.com](http://www.dentsu.com), retrieved on 27th Feb. 2015). As an advertising agency based on creativity, its emphasis has paid off with numerous worldwide creative awards over the years, including Titanium Grandprix at Cannes Lions Creative Festival in 2014 with its long time client Honda. The strong

foundation of traditional advertising experience enabled Dentsu to hold a diverse client portfolio, thus it enjoys solid buying power in all major mass media formats (Marketline, 2014). Dentsu provides advertising campaigns for many renowned companies and many multinational clients have chosen Dentsu to act as a partner in the Japanese market.

Another key strength of Dentsu is that it provides a wide range of holistic solutions to clients. It categorizes its business into eight major lines, namely, strategic solutions, communication design, creative sphere, promotions, digital advertising, media content, social solutions, and knowledge and insight. Within these business lines, Dentsu serves its clients with unique solutions such as in-store and shopper marketing, space branding and also digital support. The wide structure of segmented services allows Dentsu to balance its revenue streams and reduce risks. Furthermore, this allows Dentsu to attract new clients while existing clients are encouraged to do more business with Dentsu.

### **7-2-3) Dealing with digital emergence**

According to Dentsu's own IR report, in the third quarter of 2014, Dentsu's consolidated gross profit was 454,842 JPY, and of this, the Japanese market constitutes about half with 226,991 JPY and the global market accounts for 227,532 JPY (earnings from Dentsu Aegis Network). However until its acquisition of Aegis Network in 2013, Dentsu's business was far more concentrated in the Japanese market. With the market intensely growing, especially with the emergence of digital media, this meant there were no geographical boundaries for advertising agencies, and Dentsu took action to move into the global market.

### 1) Acquisition

Dentsu's key to deal with the threat of digital emergence was to bolster its global digital, creative and media capabilities through acquisitions. Unlike WPP, which has grown through mergers and acquisitions throughout its history, Dentsu's acquisition strategy was not so successful in the beginning. When it started to look into the global market, it first completed a merger with Leo Burnett and D'Arcy, and then swapped that stake for a sizeable minority stake in the newly expanded Publicis Groupe in a concerted bid to increase its share of western advertising budgets. However, the benefits of that partnership were limited, and it was terminated amicably in 2012 (Agency Report, 2014).

For Dentsu to succeed, it needed to be selective about its acquisitions. WPP was a holding group with individual agencies working separately serving each of their individual clients, but according to its philosophy, Dentsu has never been an unbundled agency. Instead of having a fragmented way of working, as a Japanese company, its network arranged itself around its clients' needs, not separating the digital side from its main business (Mishra, 2015). Around the year 2010, Dentsu acquired key digital agencies globally, including McGarryBowen, a New York-based digital agency, and by doing so, it moved into the North American region. But the most important acquisition of Dentsu was in March 2013, when Dentsu acquired Aegis Group PLC (Aegis) for 409 billion yen or 3.164 billion euros (Agency Report, 2014), fueling it to become a true global network for the future.

Through this acquisition, Dentsu Aegis Network Inc. was formed, and it manages Dentsu Inc.'s non-Japan operations, including holdings of Aegis Media (the primary unit of

Aegis Group) and Dentsu Network. This new entity continues to contribute on a global scale to the business success of its clients and to maximize its corporate value especially in the digital era where innovation in the digital sector is expected to become an even more significant factor in the success of their clients' businesses (Agency Report, 2014).

<Table 7. Key acquisitions of Dentsu Inc. from 2013- 2014>

Company acquired	Date	Country
Socializer	January 2014.	Poland
Oddfellows Holdings	January 2014.	Australia
Media Vision	October 2013.	Scotland
Trio Digital Integrated	September 2013.	China
Ymedia	September 2013.	Spain
Simple Agency	July 2013.	Italy
Webchutney	May 2013.	India
Social Embassy	May 2013.	Netherlands
Kinecto	May 2013.	Romania
NewWorld	May 2013.	Belgium
Brandscape	April 2013.	Thailand
Beijing Wonder Advertising	April 2013.	China

\*Source: Adage.com, Agency Report 2014, Family tree

\*In 2013 alone, Dentsu made 16 acquisitions in total

## 2) Setting up a separate holdings company for digital sector

Along with its acquisition strategy, Dentsu changed its organizational structure to emphasize its digital presence in the market. Dentsu had an affiliate company called Dentsu Dot.com, which deals with digital services since 2000. But in 2010, it changed its name into Dentsu Digital Holdings, Inc. (DDH). The newly named DDH platform realigns and concentrates digital communications resources to provide integrated, advanced solutions combining creative planning, unified campaigns, mass media and other services. (<http://www.dentsu-digital.co.jp/en/solution/>, retrieved on 15<sup>th</sup> Feb. 2015).

DDH also manages corporate venture capital (Dentsu Digital Investment Limited Partnership: the Dentsu Digital Fund, capital 10 billion JPY) specializing in the digital domain with the objectives of creating a worldwide digital business market and expanding Dentsu Group's digital businesses. By doing so, DDH is not only providing digital advertising services to clients, but also building platforms and investing in technology that could reinforce the company's digital strength for further growth.

<Table 8. Dentsu's key strategy for digital expansion>

<p>a) Enhance competitiveness to put the Group at the forefront of marketing convergence</p> <ul style="list-style-type: none"> <li>- Continuous growth by expanding digital revenues           <ul style="list-style-type: none"> <li>: Expand client base by strengthening data analysis capabilities and PDCA</li> <li>: Create a service network on a global basis, organically and through M&amp;A</li> <li>: Establish a new earnings model based on marketing ROI and integration attribution</li> </ul> </li> <li>- Improve profitability of the digital business           <ul style="list-style-type: none"> <li>: Improve operational efficiency by using technology and Group resources</li> <li>: Integrate Aegis's digital capabilities into the domestic business</li> </ul> </li> <li>- Develop and acquire cutting-edge technology           <ul style="list-style-type: none"> <li>: Increase sophistication of R&amp;D through knowledge-sharing with Aegis and the concentration of functions as well as improve efficiency based on merit of scale</li> <li>: Strengthen cooperation with partner companies</li> <li>: Capture external resources (data &amp; technology) through acquisition and investment</li> </ul> </li> </ul>
<p>b) Create new business from marketing convergence</p> <ul style="list-style-type: none"> <li>- Support the development of new revenue sources for existing media and content owners           <ul style="list-style-type: none"> <li>: Support the establishment of new values and presence for existing media and content owners based on marketing convergence</li> <li>: Establish a collaboration system in intelligence and data gathering</li> </ul> </li> <li>- Develop new solutions that respond to the evolution of mobile           <ul style="list-style-type: none"> <li>: Develop and monetize communications and sales platforms in new devices and services centered around mobile</li> <li>- Advertising to commerce               <ul style="list-style-type: none"> <li>: Provide consistent services that integrates and manages everything from communications to distribution</li> <li>: Support client's EC/CRM activities for maximizing consumer's lifetime values, such as PR/community management</li> <li>: Support customer transfer by developing new marketing flow lines</li> </ul> </li> </ul> </li> </ul>

\*Source: Dentsu.com, Dentsu 2017 and beyond-innovation \* reinvention data slides

In its “Dentsu 2017 and Beyond” presentation, it emphasized evolution and expansion of the digital domain. Dentsu, like many traditional agencies, realized that the progress of marketing convergence is transforming clients' business processes, and digital solutions have become a key factor in business growth. With the emergence of specialized digital agencies, Dentsu employed both acquisition (like other major traditional agencies) and structure change as its key drivers. By 2017, Dentsu will keep pursuing its strategy to move forward in the world ranking with the help of its new Dentsu Aegis Network Inc..

## **8. The advertising industry of South Korea**

### **8-1) What's different from the global market?**

As Korea's consumption power is increasing and many multinational companies are aggressively promoting their brands, the importance of the Korean advertising market is also growing. A Marketline industry report (2014) shows that South Korea's advertising industry is about 463.4 billion USD in 2013, ranked as number four in the Asia-Pacific region following China with 12,212.9 billion USD, Japan with 7,059.4 billion USD, and India with 2,981.7 billion USD (p.9). But if compared in per capita South Korea ranks number two with 187 USD per person behind Japan with 320 USD per person (emarketer.com, 2013). Within the industry, like many other markets, traditional media such as TV, print and radio spending has stagnated; however digital media, especially in the mobile market, has grown significantly in the past few years (Advertising Year Book, 2014, p.149).

The significant characteristic of South Korea's industry is the size of its mobile market. Compared with 2012, in 2013 Korea's mobile advertising segment increased by almost 100%. According to eMarketer's latest forecast of paid media spending worldwide

(eMarketer.com, 2014), nearly two in five digital ad dollars spent by advertisers in South Korea this year will go toward mobile Internet formats, including display and search. With the overall size of an industry that is less than half of the U.S. and China, this statistic indicates that when describing South Korea's advertising market, it is crucial to look into its digital sector. The reason for the high penetration rate of mobile advertising can be accounted for by the fact that Korea is ranked high on the Internet penetration rate with 81.9%, according to eMarketer's report (2014).

Along with a large mobile segment, South Korea still views TV as a dominant medium. Compared with the worldwide average of 31% spent on TV, TV constitutes 37.2% in the South Korean market (Advertising Year Book, 2014, p.132). To be more specific, broadcasting from traditional TV has actually decreased, but alternative sources such as cable TV and Internet-based IPTV have increased which are also counted towards TV media. Therefore, one of the key competitive edges for the traditional advertising agency was the buying power of TV media where it can efficiently spend its clients' budget. In order for the advertising agencies to have this power, scale is crucial, thus the top ten advertising agencies in Korea account for 83.3% of total advertising revenues in 2013 (Advertising Year Book, 2014, p.155).

&lt;Table 9. Mobile Internet Ad spending share of Total Digital Ad spending, 2013-2018&gt;

	2013	2014	2015	2016	2017	2018
Argentina	2.80%	6.10%	13.80%	25.50%	39.60%	55.90%
Australia	9.50%	20.10%	29.00%	40.90%	53.00%	64.40%
Brazil	3.20%	9.40%	18.10%	28.60%	42.60%	58.90%
Canada	12.30%	23.70%	34.10%	48.20%	57.60%	68.30%
China*	5.60%	27.00%	39.40%	48.80%	56.10%	61.60%
Denmark	13.50%	31.30%	42.40%	51.50%	60.70%	69.40%
Finland	12.00%	27.50%	38.30%	45.80%	52.80%	58.70%
France	8.70%	14.70%	22.20%	30.50%	40.50%	52.50%
Germany	7.90%	20.90%	31.50%	43.80%	57.20%	68.70%
India	2.90%	4.20%	6.10%	8.60%	11.80%	15.80%
Indonesia	3.70%	4.30%	5.50%	7.40%	10.30%	13.70%
Italy	11.90%	19.60%	26.80%	34.40%	43.00%	50.20%
Japan	22.70%	28.60%	35.00%	43.30%	51.90%	59.60%
Mexico	14.10%	21.40%	30.50%	38.70%	48.50%	59.20%
Netherlands	9.70%	25.50%	35.70%	47.10%	58.10%	69.10%
Norway	11.70%	30.60%	41.70%	52.20%	62.10%	70.80%
Russia	3.10%	5.90%	8.00%	10.70%	13.70%	16.30%
South Korea	20.10%	38.40%	54.40%	63.10%	68.80%	73.20%
Spain	4.50%	8.30%	13.50%	21.40%	33.30%	50.10%
Sweden	14.40%	27.80%	38.90%	49.60%	61.40%	70.80%
UK**	16.40%	24.90%	37.10%	48.90%	59.30%	67.00%
US	24.20%	37.00%	48.20%	59.50%	65.70%	70.60%
Worldwide* **	15.60%	27.50%	37.70%	48.40%	56.60%	62.90%

\* Source: eMarketer, Dec 2014

\* Methodology: Estimates are based on the analysis of various elements related to the ad spending market, including macro-level economic conditions, historical trends of the advertising market, estimates from other research firms, and consumer mobile usage trends. Note: includes display (banners, video and rich media) and search; excludes SMS, MMS and P2P messaging-based advertising; includes ad spending on tablets; \*excludes Hong Kong; \*\*includes SMS, MMS and P2P messaging-based advertising; \*\*\*includes countries not listed. Mobile search ad spending includes advertising on search engines, search applications and carrier portals. Mobile display ad spending includes banners, rich media and video on WAP sites, mobile HTML sites and embedded in-app/in-game advertising. eMarketer benchmarks its UK mobile ad spending projections against the IAB UK/PwC data for which the last full year measured was 2013 and its Mexico mobile ad spending projections against the IAB Mexico/PwC data for which the last full year measured was 2013.

&lt;Table 10. Top 15 countries with high Internet penetration, 2013-2014&gt;

	2013	2014	2015	2016	2017	2018
1. Norway	86.00%	87.00%	87.00%	87.00%	87.00%	87.00%
2. Denmark	84.00%	85.00%	86.00%	87.00%	87.00%	87.00%
3. Netherlands	84.00%	85.00%	86.00%	86.00%	86.00%	86.00%
4. Switzerland	82.70%	83.70%	84.70%	85.70%	86.70%	87.60%
5. Sweden	82.10%	83.10%	83.10%	83.10%	83.10%	83.10%
6. Finland	81.90%	82.90%	83.90%	84.80%	85.60%	86.40%
7. South Korea	81.90%	82.30%	82.60%	82.80%	83.00%	83.20%
8. Japan	78.60%	80.30%	81.60%	82.50%	83.00%	83.50%
9. Canada	78.90%	79.70%	80.40%	81.00%	81.70%	82.40%
10. US*	77.70%	79.30%	80.70%	81.80%	82.70%	83.30%
11. UK*	75.90%	77.30%	78.40%	79.40%	80.20%	80.90%
12. Germany	73.30%	76.10%	77.00%	77.50%	77.80%	78.00%
13. Ireland	75.00%	76.00%	77.00%	78.00%	78.90%	79.80%
14. Australia	75.60%	76.00%	76.20%	76.40%	76.50%	76.60%
15. France	74.00%	74.90%	75.80%	76.60%	77.30%	78.00%
Worldwide**	38.00%	40.40%	42.40%	44.40%	46.30%	48.20%

\*Source: eMarketer, Nov 2014

\*Methodology: Estimates are based on the analysis of survey and traffic data from research firms and regulatory agencies; historical trends; and country-specific demographic and socioeconomic factors.

\*Note: individuals of any age who use the Internet from any location via any device at least once per month; \*forecast from Aug 2014; \*\*includes countries not listed

## 8-2) Leading agencies of South Korea

Advertising agencies in Korea first came around in the 1960s with foreign invested advertising agencies mainly dealing with accounts of multinational companies. Major domestic agencies were actively established during the 1970s, including Cheil Worldwide of Samsung Group and Oricom from Doosan Corporations. But what makes South Korean advertising agencies unique is that it is dominated by in-house agencies of large conglomerates of Korea. Unlike in the U.S. or Japan where large advertising holdings companies independently serve various clients, even with these big agencies entering the

Korean market, in-house agencies still lead the industry, depending a lot on their parent companies (Kim & Jung, 2013).

Table 11 shows the top advertising agencies of South Korea by its annual billings in 2013. Out of the top ten agencies, seven of them are in-house agencies of domestic companies. The top three agencies correspond to the top three largest companies in South Korea, and the world's leading multinational agencies are not performing as well. This can be explained by the fact that in-house agencies facilitate better internal communication, enable aligned marketing strategy and also provide cost efficiency (Kim & Jung, 2013). As large conglomerates in South Korea typically own varied businesses ranging from consumer electronics to financial services, it is more applicable for the Korean market to establish in-house agencies.

<Table 11. Top Advertising agencies of South Korea>

	Name	2012	2013	Global Billings	Parent Company
1	Cheil Worldwide	5,118,249	5,198,166	385,327	Samsung
2	Innocean Worldwide	3,891,415	3,719,111	2,923,843	Hyundai
3	HS Ad	717,114	936,669	245,993	LG
4	Deahong Communications	586,117	698,483	30,354	Lotte
5	TBWA Korea	288,248	344,255	-	-
6	Oricom	186,444	169,541	5,089	Doosan
7	Hancomm	216,136	158,163	-	Hanwha
8	L Best	277,402	150,545	-	LG
9	Leo Burnett Korea	142,116	136,894	5,287	-
10	McCann Ericson & Universal McCann Korea	125,365	130,342	-	-

\*Unit: 1,000,000 KRW, Annual billings (Billing is the total amount an ad agency charges the client that includes the cost of media purchased, agency commission, cost of production, etc. The total billings for an ad agency are used to determine the agency's size)

\*Source: Korea Advertising Association

\* Published by Kobaco, 2014 Advertising Agency Report

However, in 2013, the Korean government strengthened regulations on large conglomerates as they were giving all the work to their affiliate companies, dominating the market and suppressing small and medium businesses. As a result, many in-house agencies suffered a sudden decrease in revenue as many were forced to give part of their advertising budgets to non in-house agencies, giving opportunities to many specialized agencies to use this as a chance to work with big brands (Advertising Year Book, 2014, p.149).

Therefore, the recent trend indicates that even with stable revenues coming from its parent companies, this regulation will keep forcing in-house agencies to open bidding presentations and give more opportunities to small agencies with more creativity. Moreover, many digital media companies are moving into traditional advertising areas such as making creatives for streaming services, which also intensifies the threat to traditional agencies in Korea. Nas Mdiea, one of the top digital media lab agencies, recently announced its partnership with Videology Group providing video advertising creative for online platforms to enhance their creative as well as digital expertise (Choi, Asia Financial, 2014).

As digital media is the growth engine for the advertising industry, traditional agencies also ventured into the digital medium. A large consumer base was moving away from traditional media to online and their time spent on mobile and digital platform was increasing. Eventually the clients seek online strategies to target those consumers thus making traditional agencies seek out digital capabilities. According to Korea Advertising Industry Statistics Report 2014, out of total mobile advertising, digital advertising agencies take 65% of the market share whereas traditional advertising agencies only take 10%. Also, for digital advertising in general (excluding mobile advertising) traditional advertising

agencies only take 44% of the market share. To maintain its dominance in the industry, traditional advertising agencies need to find their own strategies to avoid these specialized digital agencies from taking the lead.

<Table 12. 2013 digital advertising billings by agency types>

2013 Mobile advertising billing		
Advertising agency	765	10%
Media Agency	613	8%
Digital advertising agency	5,072	65%
Digital creative agency	427	6%
Digital media agency	867	11%
<b>Total</b>	<b>7,744</b>	<b>100%</b>
2013 Digital advertising excluding mobile billings		
Advertising agency	9,290	44%
Media Agency	1,094	5%
Digital advertising agency	6,908	33%
Digital creative agency	1,752	8%
Digital media agency	1,905	9%
<b>Total</b>	<b>20,949</b>	<b>100%</b>

Unit: 100,000,000 KRW

Source: Korea Advertising Industry Statistics Report 2014

Published by: Ministry of Culture, Sports and Tourism & Korea Creative Content Agency

Note: Advertising agency refers to traditional agencies providing total advertising services including ATL and BTL services. Digital creative agency refers to specialized digital agency who only deals with creative, not media itself.

## 9. Cheil Worldwide of South Korea

### 9-1) Company Overview

Cheil Worldwide (Cheil) is ranked as the number one advertising agency in Korea, with a total billing of approximately 5,198 billion KRW, followed by Innocean Worldwide with a total billing of 3,719 billion KRW in 2013 (Advertising Agency Status Report, 2014). Cheil was founded in 1973 under Samsung Corporation to serve as an in-house advertising agency for the Samsung Group. Cheil established its first overseas subsidiary in 1988, in

Tokyo, Japan, and after over 40 years of history, now Cheil has expanded to 47 offices in 40 different countries, providing total marketing solutions not only for Samsung affiliate companies but also to many global clients. Cheil's former name was Cheil Communications, but in 2008, trying to move out to the global market and also to provide boundless marketing solutions to clients, it changed its name to Cheil Worldwide.

As the number one advertising agency in Korea for many years, the first challenge that Cheil faced was to move out of Samsung and be a global agency. According to the Wall Street Journal, in 2008, Cheil's biggest challenge was to find a way to become less reliant on the Samsung Group where the parent company accounted for about 55% of Cheil's total revenue back then (Vranica, 2009). Samsung as a holdings corporation did not oppose this idea as its main goal is to become a leading company in its own industry, and for Cheil to truly become an industry leader it was a necessary choice to reduce its reliance on Samsung. To fulfill that goal, Cheil's strategy was to acquire shares from agencies outside of Samsung as it could leverage these agencies' existing client base to enter the market. Starting in 2008, Cheil acquired a 49% stake in London-based Beattie McGuinness Bungay. After this first acquisition, Cheil joined other advertising agencies such as WPP and Dentsu to aggressively hunt for acquisition opportunities.

Despite its effort to move away from Samsung, Cheil benefited from being the agency for Samsung Electronics when it moved up into the top global rankings. Cheil's global revenue consists of mostly Samsung-related campaigns and as Samsung gained its global presence, so did Cheil in the late 2000s. However, much of the work of Samsung's global brand is handled not by Cheil, but by rival agencies such as Leo Burnett, BETC and

CHI & Partners (Darby, 2012). Therefore, for Cheil to succeed and boost its presence in the global market, it needs to seek some organizational changes and new strategies.

### **9-2) Effect of trend towards Digital on Cheil Worldwide**

The first challenge for Cheil is to move out of the Samsung fold as mentioned above, and the second challenge is to deal with emergence of digital media in the market. Cheil realized this challenge of moving out of Samsung and implemented various strategies to attract new non-Samsung clients to its portfolio. However, the changing trend towards digital had both positive and negative effects on its business.

#### **Positive effects on business**

##### ***1) Opportunity to approach a new set of client base***

As digital media provides cheaper options for advertisers, there have been an increasing number of new clients in the market. Cheil can benefit from a new set of advertisers willing to work with advertising agencies.

##### ***2) Gateway to global market***

As acquiring small and specialized digital agencies is a viable option for Cheil, this could be used as a gateway to the global market and there is no geographic boundary to digital advertising. With traditional advertising strategies, it was difficult to gain the attention from global clients, but as acquisitions bring new sets of clients on the digital side, Cheil can benefit from this trend.

##### ***3) Large pool of clients moving towards digital***

Having the largest set of advertisers in Korea, Cheil can leverage its existing clients when transforming into a digital agency. If Cheil successfully manages to take most

of the digital budget from existing clients, it can smoothly increase its shares in digital advertising.

### **Negative effects on business**

#### *1) Operations are centered on traditional advertising*

As the company has been around more than 40 years with its main system centered on traditional media, transforming completely to become a fully digital agency would take more time and resources compared to other small and specialized digital agencies.

#### *2) Transforming brand image*

Cheil has a strong association with creativity in traditional advertising. With the emergence of specialized digital agencies, Cheil's expertise in creativity needs to be transformed into digital advertising. Otherwise, new competitors can take the digital share of its existing clients, which can act as a threat to Cheil Worldwide.

### **9-3) Changes in strategy over time**

Realizing the digital trend and stricter government regulations to discourage in-house agencies from dominating the market, Cheil Worldwide implemented different strategies over time to overcome these challenges. Below are the most significant strategies that played an important role in shaping Cheil's growth.

#### *1) Increase digital manpower*

Realizing the importance of digital media, Cheil tried to attract global digital experts. The first significant hire was in 2007. Cheil hired Andrew Berglund, who was a former Executive Creative Director at BBDO's InterOne Worldwide Agency in Germany to oversee the global interactive division. Cheil believed that having talent to lead the team would

bolster its digital capabilities. In the following year, Cheil recruited many foreign global experts such as World Wide Creative Director to develop into a global advertising agency, and as part of such efforts, hired Bruce Haines as its Executive Vice President. Bruce Haines was appointed in the role of Global Chief Operating Officer as well as Executive Vice President and mainly governed the global division, focusing on digital strategies until he left the company in 2013.

However with a limited name value outside of Korea, it was not easy for Cheil to attract global talent. However, after 2011, when Cheil received its first grand prix at the Cannes Creative Festival with its client Homeplus, Cheil accelerated its hiring process. Together with its improved creativity, Samsung also grew its reputation globally. Taking the opportunity, at the end of 2011, Cheil USA hired as its Chief Creative Officer, Lars Bastholm who used to work as the Chief Digital Officer at Ogilvy North America, one of the top global agencies. Cheil's strategy was to use Bastholm's expertise to lead Cheil to expand its creativity globally, especially in the Americas, and beyond its main client, Samsung (O'Leary, 2011).

Cheil maintains its hiring of digital experts as its key strategy up to date. At the end of 2014, Peter Kim was appointed as Chief Digital Officer in a newly created position at the agency. Kim is a 15-year digital expert, and will build its strategy for both domestic and global markets, reporting directly to the CEO of Cheil Worldwide. In addition to Kim, former Saatchi & Saatchi Sydney Executive Creative Officer Malcolm Poynton has been also appointed as Cheil's Global Chief Creative Officer. Unlike Kim, he will be located in London and focus more on global clients, looking over the digital agencies that Cheil had acquired,

including McKinney and the Barbarian Group. In this way, Cheil utilizes its talents to safely land into the digital era.

### 2) Acquisition of global agencies

After acquiring Beattie McGuinness Bungay in 2008, Cheil decided to devote its resources into deal making. This was an inevitable choice for Cheil as the industry was under pressure to move into digital media, and many holding agencies were already aggressively making its way into acquisitions. Notable acquisitions include the Barbarian Group in 2009, which opened up an opportunity for Cheil to enter the U.S. market, Open Tide of China in 2009, McKinney of the U.S. and Bravo of China in 2012 (Cheil.com, retrieved on 23<sup>rd</sup> Feb. 2015).

These acquisitions served two roles for Cheil: first to gain the client base of the acquired companies and the expertise to diversify its portfolio outside of Korea and Samsung. Second, after 2009, all the acquisitions were focused on digital agencies, which could enhance Cheil's share in digital media. As a result, Cheil has acquired over 40 agencies worldwide since 2008, and its global revenue accounts for nearly 70%, according to a recent news release in 2014 (Cheil.com, retrieved on 23<sup>rd</sup> Feb. 2015). In an interview with The Economic Times in 2012, Nack Hoi Kim, the CEO at the time, commented that acquisitions could be an effective way to either enhance Cheil's competencies or give fast access to a market. Thus acquisitions will continue to be one of Cheil main strategies for the near future.

### 3) Organizational changes

Reforming the organization was also another key strategy for Cheil. After Andrew Berglund joined the company, Cheil established a new interactive department called The-i

in 2008 to focus more on the digital media. This change was a big move for Cheil, as its departments were usually based on campaigns and clients, but it started to consolidate all digital areas of work into one to provide better digital solutions to clients. Since 2008, Cheil has frequently changed its structure to find the optimal solution for the agency's future growth. Among them, the following are the key highlights.

- I. In 2014, Cheil declared its new vision as "Ideas that Move" and strengthened its digital area – Digital solutions based on a new big data team called DnA Center was founded to help Cheil to provide data analytics to clients.
- II. In 2014, Media Cube was formed in alliance with Media Math to provide the first federated programmatic media solution based on pioneering the Demand Side Platform (DSP). Cheil has established such a media center so that it could provide a smooth evolution of traditional media buying and planning transactions into programmatic Real-Time Bidding (RTB), Private Market Place (PMP), and Direct Programmatic Transactions ([mediacube.cheil.com](http://mediacube.cheil.com), retrieved on 26<sup>th</sup> Feb. 2015).
- III. In 2015, "Beyond Cheil" was established. The team focuses on finding new business areas outside of traditional advertising roles and finding opportunities for Cheil to grow. This new department is an indication of Cheil's view that the advertising industry is changing and that it will position itself as a solutions company rather than an advertising agency ([Cheil.com](http://Cheil.com), retrieved on 26<sup>th</sup> Feb. 2015).

Besides these organizational changes, Cheil also leads digital conferences to market its digital capabilities to the outside world. Since 2007, Cheil has been holding the Digital Leaders Forum, which announces the keyword of the year according to digital trends, and brings digital experts around the country to share their views and networks. These events,

together with an enhanced structure to support digital marketing solutions to clients, will bring Cheil forward to face the digital competition.

## **10. Comparison between global agencies and Cheil Worldwide**

As Korean advertising agencies were first shaped during the Japanese colonial era in the early 1910s, many agencies followed the rules and settings of Japanese agencies. As one of the oldest agencies in Korea, Cheil also followed Japanese advertising agencies. In its establishment, Cheil cooperated with HAKUHODO of Japan for setting up its system and structure (Cheil.com, retrieved on 27th Feb. 2015). After 30 years of presence in the industry, Cheil has outgrown its partner in Japan, and is now ready to step out into the global market, where the trend is towards digital.

Like other leading global agencies, Cheil considers acquisition as a key strategy. Thus, Cheil faces enormous competition from other ad holding companies, such as Publicis Groupe, which are aggressively scouting digital agencies as candidates for acquisition. Scaling up is one of the necessary actions to take, especially when there are many mergers happening between highly ranked agencies. In 2014, Publicis and Omnicom Group tried to make a mega deal, and Dentsu and Aegis merged in 2012. Publicis and Omnicom's merger failed, but their motivation for attempting a merger was clear. The industry is responding to a trend where the collection and sale of personal information of millions of consumers is rapidly growing in importance (2014, Gelles). It is clear that for both Cheil and other leading companies, gaining scale is crucial for the digital era.

However, unlike other agencies, Cheil faces another big challenge: that of familiarizing its name to global clients. Cheil needs to attract many non-Korean clients in

order to gain a global brand name and become comparable with other global giants. Hiring leading global experts is a strategy that differs from the leading agencies. Cheil needs these people to bring talent but also needs clients as well. Cheil hires mainly chief officer-level employees who can bring new clients and experience to the company.

Another difference is the characteristic of the Korean advertising industry. As stated above, the in-house advertising agency is predominant in the market. When top agencies are viewed as in-house agencies, it is hard for them to attract non-parent clients. Strong association with its parent company can play a positive role of providing stable revenue to the company, but in terms of attracting new clients, it could work as a perceived barrier. Due to the improved budgets, security and efficiency it offers, many are building more in-house agencies (Lee, 2013). Therefore Cheil faces the challenge of being an in-house agency, but one that is trying to break out of the Samsung-related image for its expansion.

## **11. Recommendations for Cheil Worldwide's future**

Cheil has led the Korean advertising industry over the years with its creativity and consumer insights. Its organization strategy has evolved accordingly, from hiring new talent to acquisitions and mergers with specialized agencies. More recently, Cheil has focused on data analytics to improve its digital capability. Cheil Social Media Analysis has been developed on its own to provide better services on social media, and the Cheil DNA Center has been established to service clients with total solutions based on data gathered by its own system (Cheil.com, retrieved on 1<sup>st</sup> Mar. 2015).

Besides the current strategies that Cheil is implementing, there are a few recommendations.

- Keep reducing its reliance on Samsung: In its PR release in January 2015, Cheil announced that it would reduce Samsung Electronics revenue to 60% from 70% last year. This will help Cheil's fortunes from fluctuating according to Samsung Electronics business performance. Part of its acquisition strategy is enhancing this purpose, as acquiring of Iris of the U.K. last year would add 13% of total revenue from outside of Samsung (Financial News, 2015). The more independence Cheil gains, the more opportunities it would have to serve diverse clients in the digital era.
- Cheil needs to manage its own brand image: Cheil has reformed itself into a total marketing solutions company, providing digital strategy using its own data analytics systems. However, Cheil is still perceived as a traditional agency providing communication strategy for large corporations. Cheil already possesses the expertise to compete in the digital world, so now Cheil needs to utilize this ability and enhance its own agency branding to be perceived as an independent and fully digitized agency to attract more new clients.
- Leverage its long history and expertise in providing total marketing solutions. Even in the digital era, clients still seek for comprehensive marketing solutions capturing both digital and traditional media. Cheil should maximize its offline experience with various clients and provide integrated solutions to gain competitive edge over newly formed digital agencies.

## **12. Limitations and conclusion**

The study of Cheil has limitations since internal data cannot be fully accessed by the public. This thesis only uses the published news releases data for analysis; therefore some

of the company's past strategies, especially those that did not work out well, may not have been reflected in the paper. The thesis covers a broad view of the advertising industry but deeper investigation into each agency may be needed for further study.

"Ideas that Move" is the new slogan for the company since 2014. It declared its new slogan and wants to move into a new era where it will no more be a just an advertising agency, but a solutions company for any marketing problems. With the fast changing dynamics of the industry, Cheil faces threats from leading agencies. Leading agencies face threats from IT services firms such as Accenture and IBM as data analytics have become the key for digital advertising. New mergers and acquisitions are planned for many big firms and Google is somewhat working as an advertising agency as well. Once Cheil transforms itself into a fully digitized agency, there will be other new challenges that it will face. Advertising agencies, along with its moving industry, must change its strategies accordingly to survive in the market.

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