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



Source: NicoElNino/Alamy Stock Photo

Learning Objectives

- LO 3-1** | Describe how companies organize for advertising and integrated marketing communications functions.
- LO 3-2** | Compare the advantages and disadvantages of different ways to organize for advertising and promotion.
- LO 3-3** | Identify the types of advertising agencies and the roles they play.
- LO 3-4** | Explain how to select, compensate, and evaluate advertising agencies.
- LO 3-5** | Identify the role and functions of specialized marketing communication organizations.
- LO 3-6** | Compare the pros and cons of using an integrated marketing services agency.

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The Math Men Are Overtaking
The Mad Men

In 1859, Charles Dickens wrote his classic novel, *A Tale of Two Cities*, which begins with one of the all-time great opening lines: “It was the best of times, it was the worst of times.” That same year, Charles Darwin authored his famous book, *On the Origin of Species*, in which he introduced the concept of “survival of the fittest,” which refers to a situation in which only the strongest and most successful people or things continue to exist. A little over a century and a half later, there are those who would argue that Dickens’s sentiment and Darwin’s theory are very applicable to the world of advertising. There was a time when Mad Men—a term used to describe the men and women who worked in advertising agencies and developed creative messages delivered through TV and radio commercials or print ads in magazines and newspapers—ruled the world of advertising. However, they are now being eclipsed by Math Men—the engineers, mathematicians, and data scientists whose domain is computers, algorithms, big data, analytics, and artificial intelligence.

In his book *Frenemies: The Epic Disruption of the Ad Business (and Everything Else)*, author Ken Auletta, who covers media and communication for *The New Yorker* magazine, writes about the current existential crisis facing the advertising industry. The title of his book comes from a term popularized by Sir Martin Sorrell, the founder and former chief executive of WPP, the world’s largest advertising and marketing holding company, who noted that advertising agencies both depend on and must compete with technology companies such as Google, Facebook, and Amazon. The Frenemies list also includes the agencies’ clients, who are taking more of their advertising in-house, as well as the general public, who do not want to be interrupted by ads and are using ad blockers to stop them or turning to media alternatives that do not have advertising such as Netflix, Amazon Prime, Apple TV+, and other streaming services. Auletta also discusses how global consulting companies such as Accenture, Deloitte, IBM, and PwC have opened digital divisions and gained a foothold in the marketing departments and chief executive offices (C-suites) of clients. These consultancies bring a vast array of strategic and data analytic solutions to business and marketing problems that traditional advertising can no longer solve alone.

Many advertising agencies recognized the rapid growth of digital media and that they were becoming an integral part of their clients’ IMC programs. They responded by expanding their in-house capabilities as well as acquiring companies with expertise in digital and social media. However, many agencies are finding that the marketing communications industry is changing too fast to keep pace just by expanding their digital capabilities or making acquisitions. The advertising and marketing services landscape has changed dramatically over the past five years and continues to become more challenging. Much of this is due to the complexities associated with digital media and other emerging technologies that marketers are using to communicate with consumers. Marketers are looking for new and better ways to connect with their customers, and many are utilizing the detailed analytics that come from digital media, as well as other tools, to evaluate the effectiveness of their efforts to do so.

The disruptions being created by the digital revolution are squeezing agencies from all sides. Media buying is becoming increasingly automated, particularly for digital and social media, and big data is driving the planning and evaluation of the advertising strategies and tactics used by marketers. Digital advertising platforms such as Google, Facebook, and Amazon have become very powerful players in the marketing communication ecosystem, as have data/customer relationship marketing companies such as Epsilon, Acxiom, and Experian Marketing. In addition to advertising agencies, marketers are using a multitude of vendors and technology providers. One report found that marketers are using as many as

30 different tools to help them plan, manage, and evaluate their IMC campaigns and the data associated with them.

The challenge facing many agencies is how to respond to all of the factors that are disrupting the advertising industry and their business models. Many are doing so during a time when they are not only facing growing creative challenges and workloads but also clients who are looking for ways to cut their marketing spending and battles with agencies over compensation fees. Moreover, more marketers are bringing their advertising in-house rather than using an outside agency or are limiting the services they provide. Many companies are no longer looking for a traditional agency of record (AOR) [page 70](#) relationship, whereby the agency plays a lead role in their IMC programs, but are rather looking to work with best-in-class marketing partners with specialized expertise in various areas.

The digital and technological revolution continues to affect the world of advertising. Ken Auletta argues that “few industries have been convulsed by change as much as advertising, which, as a result is facing fundamental challenges to its existence.” Advertising agencies are being affected by these changes as well and have no choice but to find ways to work with their “frenemies.” A number of industry experts note that agencies have to be careful not to move beyond their core capabilities and try to compete directly with the tech giants in digital and social media, or areas such as data and analytics, but rather look to collaborate with them. One area where traditional agencies have an advantage is creativity, and the future may depend on their ability to marry creativity with data. However, this also means they will have to have people on board who can analyze data in creative ways. Andrew Essex, the cofounder and former vice chairman and chief executive officer (CEO) of Droga5, an agency known for its excellent creative work, says that “the pendulum has to swing back to human ingenuity, like storytelling and ideas, which is where the tech companies fall off.”

The changes discussed here present tremendous challenges for advertising agencies and require that they transform themselves if they want to survive and prosper. It is likely that some agencies will resist change and cling to the hope for a return to glory days of advertising depicted in the popular television drama series *Mad Men* several years ago. As one agency marketing executive notes: “*Mad Men* made people nostalgic for a time when a beautiful piece of advertising in a single channel could grab the attention of the country and cause a huge number of people to change their behavior.” However, most recognize that those days are long gone and agencies that fail to adapt may find themselves watching reruns of *Mad Men* and yearning for the good old days of advertising.

Sources: Brian Braiker, “‘Frenemies’ Author Ken Auletta on the Ad Industry’s Existential Crisis,” *Advertising Age*, June 5, 2018, <https://adage.com/article/podcasts/frenemies-author-ken-auletta-ad-industry-s-crisis/313731>; Stuart Elliott, “They’re Not ‘Mad Men’ Anymore. But the Ad Business Is Still High Stakes,” *The New York Times*, June 5, 2018, www.nytimes.com/2018/06/05/books/review/ken-auletta-frenemies.html; Lindsay Stein, “Agency of the Future: Survival of the Fittest,” *Advertising Age*, April 2, 2018, pp. 12–15; Terence Kawaja, “Back to ‘Mad Men’—What the Future Holds for Ad Agencies,” *Advertising Age*, September 3, 2015, <http://adage.com/article/guest-columnists/back-mad-men-future-holds-ad-agencies/300195/>.

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, the websites we visit, the videos we watch online, or the contests and 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 discussed in the first two chapters, 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 integrated 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, digital/Internet, 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-marketing, sales promotion, and digital/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 communication 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.

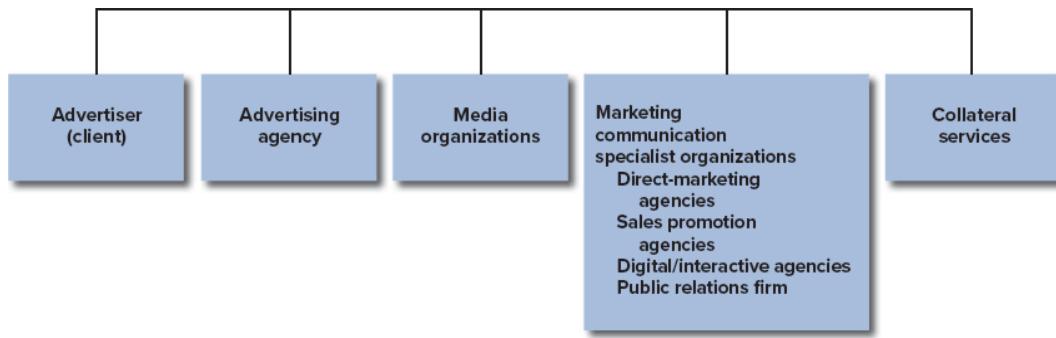
PARTICIPANTS IN THE INTEGRATED MARKETING COMMUNICATIONS PROCESS:

AN OVERVIEW

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.

FIGURE 3–1

Participants in the Integrated Marketing Communications 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 the IMC program. The advertisers also assume major responsibility for developing the marketing plan and making the final decisions regarding the advertising and promotional program that will support it. The organization may perform most of these efforts itself either through its own advertising or marketing communications 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 process. Many companies have an **agency of record (AOR)**, which is a single agency that has primary responsibility for most of the IMC services that the company or brand might require, such as brand and creative strategy, media planning, development and maintenance of websites, and digital marketing. However, companies that market a large

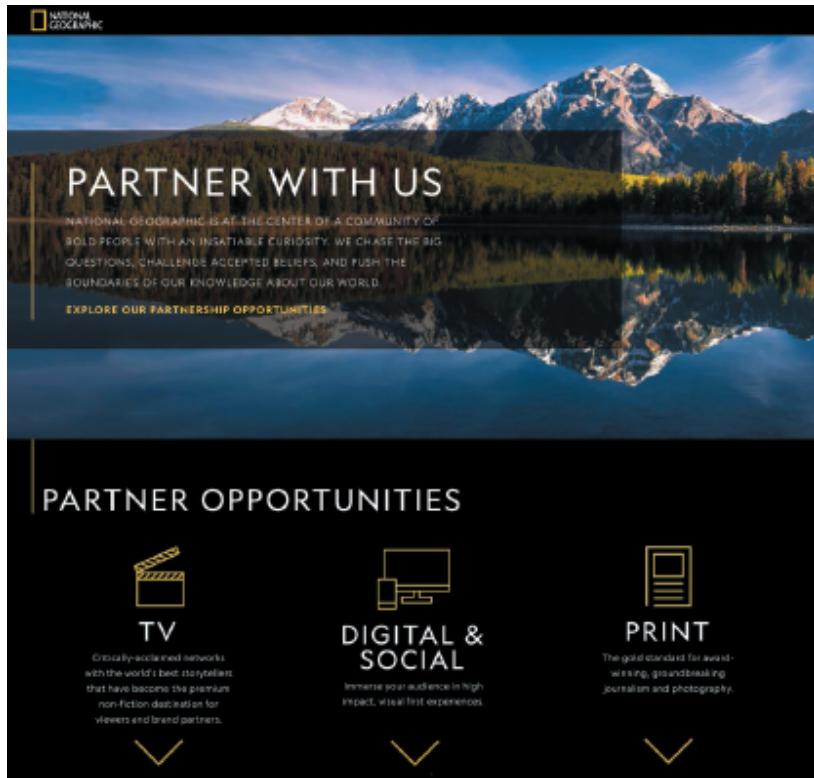
number of products and/or services may have an AOR for each brand or division. For example, Kraft-Heinz has four main agencies that handle its various brands, while General Motors has different AORs for its various automotive divisions, which include Buick, Cadillac, Chevrolet, and GMC. The automotive giant also uses Fleishman Hillard as the public relations AOR for all of its brands, as well as a number of digital, promotional, and experiential marketing agencies; an entertainment marketing agency; and several sports marketing agencies. Many large companies often use additional agencies that specialize in developing advertising and digital campaigns for multi-cultural markets. For example, in addition to its agency of record—Saatchi & Saatchi—Toyota Motor Sales, U.S.A., uses additional agencies in the United States to create ads for the African American, Hispanic, and Asian American markets. 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 messages. 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 _____ page 72 them. Exhibit 3–1 shows how *National Geographic* promotes its family of media products such as television, digital and social media, and print as a way to connect with consumers. 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.

XHIBIT 3–1

National Geographic promotes the various ways marketers can use its media platforms to connect with consumers.

source: *National Geographic Partners, LLC*



The next group of participants are organizations that provide **specialized marketing communication services**. They include direct-marketing agencies, sales promotion agencies, digital/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. Digital/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 communication 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.)

ORGANIZING FOR ADVERTISING AND PROMOTION IN THE FIRM: THE CLIENT'S ROLE

LO 3-1

Virtually every business organization uses some form of marketing communication. 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 advertising and promotion 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, media strategy, and evaluation of the effectiveness of the IMC program. Top management is usually interested in how the advertising and other forms of marketing communication represent the firm, and this may also mean being involved in IMC 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 manager operating under a marketing director. In some companies this department may be called marketing communications (marcom). 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.

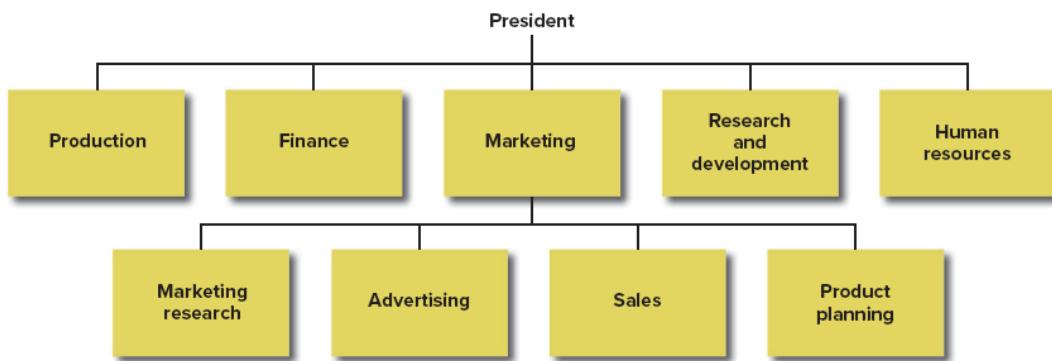
The Centralized System

LO 3-2

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 or marcom 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.

FIGURE 3–2

The Advertising Department under a Centralized System



The specific duties of the advertising or marketing communications manager depend on the size of the firm and the importance it places on promotional programs. Basic functions the manager and staff perform include administration and execution, coordination with other departments, and coordination with outside agencies and services.

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, digital/interactive, 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 information on those who use the product/service or brand, including their demographic and psychographic profiles as well as media usage patterns. The advertising department may also be responsible for preparing material the sales force can use when calling on customers, such as brochures, sales promotion tools, advertising materials, and point-of-purchase displays.

Coordination with Outside Agencies and Services Many companies have an advertising or marketing communications department but still use an advertising agency as well as other outside services such as digital agencies. 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 a liaison between the company and any outside service providers and also determines which ones to use. Once ^{page 74} 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 JetBlue have centralized advertising or marcom departments, as do major retailers such as Target, Walmart, and Best Buy. Many companies prefer a centralized department because developing and coordinating advertising and marketing 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 may be difficult for advertising department staff members to understand the overall marketing strategy for the brand, particularly if they are not brought into the planning process. The department may also be slow in responding to specific needs and problems of a product/service or brand. As companies become larger and develop or acquire new products, services, brands, or even divisions, the centralized system may become impractical.

The Decentralized System

In large corporations with multiple divisions and many different products/services and brands, 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 sales and marketing departments for various divisions, product lines, or businesses. Many companies that use a decentralized system, such as Procter & Gamble, Unilever, PepsiCo, Google, and Nestlé, assign each product/service or brand to a **brand manager** who is responsible for the total management of the brand, including planning, budgeting, sales, and profit performance. (The 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 the IMC program 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 or service 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 Gain, 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 the sales promotion team and/or agency 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. 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 Each category manager will have one or more brand managers reporting to him or her for each specific brand as well as an advertising manager.

page 75

XHIBIT 3–2

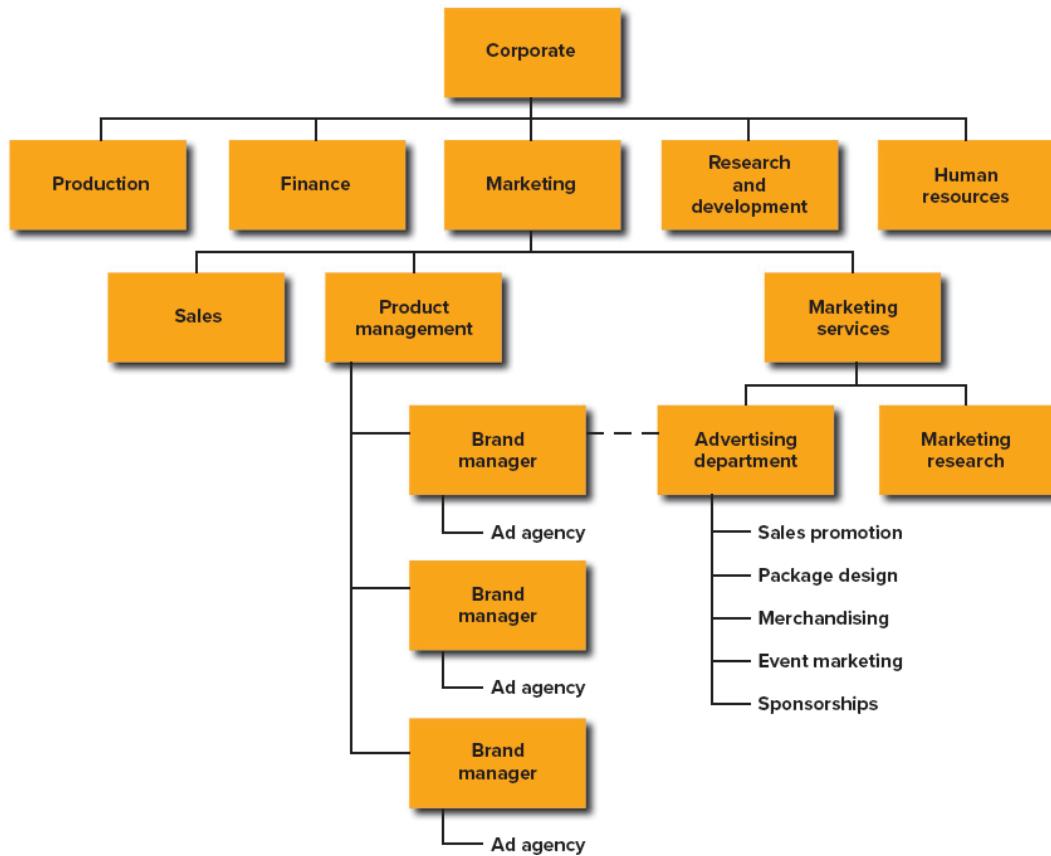
Many of Procter & Gamble's brands compete against each other.

(Left): Source: Tide by Procter & Gamble; (Right): Source: Gain by Procter & Gamble



FIGURE 3–3

A Decentralized Brand Management System



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The advertising or marcom manager may review and evaluate the various parts of the IMC program and advise and consult with the brand managers. This person may have the authority to override the brand manager's decisions on advertising and other forms of promotion. In some multiproduct firms that spend a lot on advertising and promotion, the advertising manager may coordinate the work of the various agencies to obtain media discounts for the firm's large volume of media purchases. Category management is often used in large multiproduct or divisional companies such as Proctor & Gamble, whose broad portfolio includes 10 product categories with 65 brands—21 of which generate more than a billion dollars in revenue each year (Exhibit 3–3). For example, the hair care category includes brands such as Head & Shoulders, Aussie, Pantene, and Herbal Essences.

XHIBIT 3–3

P&G's broad portfolio of brands are assigned to various categories for management.

Source: Procter & Gamble



An advantage of the decentralized system is that each brand receives concentrated managerial attention, resulting in faster response to problems as well as opportunities. The brand managers have full responsibility for the marketing program, including the identification of target markets as well as the development of integrated marketing communications programs that will differentiate the brand.⁴ 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.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. For example, General Motors,

which is one of the largest advertisers in the United States, decided to drop its brand management system and give division marketing directors more control of the advertising and promotion for its various models.⁷ The traditional brand management system has come under attack recently as critics argue that brand managers spend too much time on internal issues such as planning and budgeting and do not devote enough effort to external matters or to creativity and problem solving.⁸

A new challenge facing the brand management system is training managers to keep abreast of the rapidly changing world of digital marketing and managing the identity of a brand across various social media platforms. Brand managers may be involved in deciding which platforms to utilize and how to use them, what to consider when creating internal social media guidelines, whether to handle social media in-house or outsource it, and page 77 metrics that should be used to evaluate the effectiveness of and return on investment for various social media tools. Brand managers are often involved in developing social media strategies that include playbooks for various social media sites such as Facebook, Pinterest, Instagram, YouTube, and Snapchat (Exhibit 3–4).⁹

XHIBIT 3–4

Brand managers must understand how to use social media to manage brand identity.

rain Communications Inc., Courtesy of Ad Age

MANAGING YOUR BRAND'S SOCIAL LIFE



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 Hyundai/Kia, Avon, Revlon, Land Rover, and Benetton. Many companies use in-house agencies exclusively; others combine in-house efforts with those of outside agencies. For example,

retail giant Target has an internal creative department that handles the design of its weekly circulars, direct-mail pieces, in-store displays, promotions, and other marketing materials. However, the retailer uses outside agencies to develop most of its branding and image-oriented ads and for specific TV and print assignments. Other retailers such as Benetton and Banana Republic also have in-house advertising departments that work with 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 or negotiated fees. With an internal structure, these commissions or fees go to the in-house agency. An in-house agency can also provide related work such as production of collateral materials, digital media, package design, and public relations at a lower cost than outside agencies. In-house agencies are also preferred by some companies because they keep the marketing communications function more closely tied to top management. A study by Forrester Research found that nearly 60 percent of in-house agencies report directly to the company's chief executive officer (CEO) or chief marketing officer (CMO).¹⁰ Another reason is the stability an in-house agency provides because external agencies have much higher turnover levels, which can take a toll on the client-agency relationship. In contrast, in-house agencies are known for retaining their personnel and have a turnover rate of less than 5 percent.¹¹

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.¹² They may feel they have more knowledge about the market and competitors as well as a better understanding of the intricacies and complexities of their business. Recently, a number of companies have been dropping their outside agencies and developing in-house shops that handle their creative work as well as other areas of the IMC program. For example, telecommunications giant Verizon, which spends more than \$1 billion on advertising each year, formed an in-house agency, citing a desire for more consistency and control.¹³ Another company that _____ page 78

has moved its advertising in-house is Chobani, the leader in the Greek yogurt market. The company's chief creative officer noted that it is easier to coordinate its work internally as well as move faster in implementing its advertising telecommunications efforts. He also noted that Chobani could make its marketing budget work harder by putting it toward growth initiatives rather than agency fees.¹⁴

Digital and Social Media Perspective 3–1 >>>

Marketers Move IMC In-house

Traditionally, most major companies have used outside agencies to plan, develop, and implement their advertising rather than doing so internally, or *in-house*. They recognize that outside agencies bring a valuable external perspective because they have the benefit of working for a variety of companies across diverse industries. This often gives them a better understanding of market trends and developments, changes in customer behavior and ways they consume media, and other important factors. External agencies also can be more objective because they are not influenced by the internal biases or politics that may exist within the client's organization. Ad agencies are also perceived as having the best creative talent and thus are a good source for the big creative ideas that result in breakthrough advertising campaigns that strike a responsive chord with consumers.

The traditional perception in the marketing and advertising industries has been that in-house agencies are used primarily by companies looking to save money or wanting to maintain control of their advertising and promotional programs. For example, smaller companies with limited marketing budgets have often used in-house agencies in their early stages and then moved to an external agency as their revenue and marketing budgets increased. The use of an in-house agency is also viewed as a preferable model in some industries, such as financial services or retailing, where a large amount of marketing content must be created and distributed, including collateral pieces, direct mail, promotions, videos, and materials to support events and promotions.

Several recent studies show that the use of an in-house agency is expanding beyond small companies and/or specific industries and is becoming prevalent in many large corporations as well. A 2018 report by the Association of National Advertisers (ANA) found that 78 percent of marketers now have some type of in-house agency versus 58 percent in 2012 and 42 percent 10 years earlier. The ANA defines an *in-house agency* as a department, group, or person that has responsibilities typically performed by an external advertising or other marketing communications agency, not including an internal PR

function. The results from the ANA study do not suggest that marketers using in-house agencies have stopped using outside agencies, because many continue to use both. Indeed, the report noted that the vast majority of agencies that are ANA members still have a relationship with an outside agency.

There are a number of reasons marketers are taking advertising and other IMC functions in-house. While cost savings was cited as one of the reasons for the increase in the use of in-house agencies, another major factor was the explosion of new digital advertising tools such as social media, which enable companies to produce more creative content and to do so faster and more nimbly. Many companies feel that they can best handle the volume of content and the quick turnarounds required to keep pace with consumers who are online 24/7 in-house. Marketers also want more insights from analytics and the management of various data sources; they view traditional advertising agencies' capabilities in these areas as limited.

Another reason companies are moving their advertising in-house is that agencies move too slowly and cannot keep pace with the fast-changing needs of their clients. Employees in many agencies are stretched thin and are responsible for too many accounts, which makes it difficult for them to respond to their clients' needs. Some experts also argue that many agencies are too focused on traditional media advertising while their clients prefer to connect with customers in new ways, such as through social media and content marketing, and by using integrated models. For example, Anheuser-Busch InBev brought programmatic media buying and production of quick turnaround social media content in-house because the company felt its agencies were too focused on television ads that require a longer time to plan and produce. Having programmatic media buying in-house also allows the company to see exactly what it is getting for the money its spends on media.

The screenshot shows the homepage of the In-House Agency Forum (ihaf) website. At the top, there is a navigation bar with links for EVENTS & COMPETITIONS, RESEARCH & RESOURCES, PERFORMANCE EVALUATOR, and MEMBERS. Below the navigation, there is a large image of a person holding a document with a grid of small icons. A green banner across the middle of the page reads "Research & Resources" and "IN THIS SECTION ▾". Underneath this, a section titled "Benchmarking Data" is visible, featuring a bar chart on the left and a pie chart on the right. The bar chart has categories listed on the y-axis: IN-HOUSE AGENCY, Client Engagement/Partnership, Flexibility & Responsiveness, Brand Oversight/Integration, Project Management Abilities, Account Management, Team Timeliness/Meeting Deadlines, Effective Communication, Strategic Contribution, Budget/Financial Management, and Dedicated Team. The pie chart is divided into several colored segments. To the right of the charts, there is descriptive text about ihaf's field studies and research benefits. At the bottom of the section, there are buttons for "CHOOSE A CATEGORY" and "View all data" with a link icon.

Source: *In-House Agency Forum*

Another reason many companies are moving their advertising in-house is that they are able to attract more and better creative talent. For many years, creative personnel were reluctant to cross over to “the dark side,” because in-house agencies were seen as the place where creative careers went to die. However, in recent years, breakthrough creative work has come from in-house agencies at companies such as Dollar Shave Club, Spotify, Intel, and Verizon, and top-tier creative talent has made the leap from the agencies to the client side. While many creatives don’t want to be limited to working on advertising for one company or brand, some are finding they like being closer to the core business and having the opportunity to live and breathe the culture of the brand, which is difficult to do from the agency side.

The trend toward taking advertising as well as other areas of the IMC process—such as programmatic media buying and digital work—in-house is likely to continue. Traditional agencies must pay close attention to the increasing use of in-house agencies and consider how they can address the factors leading their clients to handle more of their advertising and other IMC functions in-house. The use of and need for external agencies is not likely to go away, but agencies must find ways to better serve the needs of their clients or risk having them take even more of their business in-house.

Sources: Adrienne Pasquarelli, “New Report Cites Skyrocketing Growth of Internal Agencies,” *Advertising Age*, October 15, 2018, <https://adage.com/article/cmo-strategy/report-cites-skyrocketing-growth-internal-agencies/315253/>; Ann-Christine Diaz, “In-House 101,” *Advertising Age*, May 14, 2018, pp. 12–13; Jack Neff, “Marketers Do It for Themselves,” *Advertising Age*, April 2, p. 20; Adrienne Pasquarelli, “Inside Job: It’s All about the Balance,” *Advertising Age*, pp. 16–18.

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. Outside agencies also can provide greater strategic planning capabilities, outside perspectives on customers, and more creative experience with certain media such as digital or television.¹⁵ 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 often hire outside agencies as they grow and their advertising budgets and IMC needs increase. [page 79](#) For example, Under Armour has become one of the leading competitors in the athletic shoe and apparel market. As the company grew and expanded into new product categories, Under Armour management recognized that it would be difficult to handle all of its advertising in-house, and in 2015 named Droga5 its first-ever agency of record.¹⁶ The company first used Droga5 to handle work for its women's business, and the agency responded by developing several award-winning ads including the "I Will What I Want" viral campaign featuring supermodel Gisele Bundchen and ballerina Misty Copeland (Exhibit 3–5).¹⁷ Droga5 now handles nearly all of Under Armour's advertising for training, running, basketball, soccer, and connected fitness. The agency recently developed a global campaign for Under Armour that features actor Dwayne "The Rock" Johnson as well as several international athletes as part of its effort to increase its international sales in markets such as China and Europe.¹⁸

XHIBIT 3–5

Under Armour uses Droga5 to handle much of its advertising.

Source: Under Armour, Inc.



The ultimate decision as to which type of advertising organization to use depends on which arrangement works best for the company. As discussed in Digital and Social Media Perspective 3–1, the number of companies using in-house agencies to handle their advertising and other IMC functions is increasing, due in part to the explosion of digital advertising tools that require marketers to produce more content and do so more quickly. The [page 80](#)

advantages and disadvantages of the three systems are summarized in Figure 3–4. We now turn our attention to the functions of outside agencies and their roles in the promotional process.

FIGURE 3–4

Comparison of Advertising Organizational 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■ Internal rather than external focus
<i>In-house agencies</i>	<ul style="list-style-type: none">■ Cost savings	<ul style="list-style-type: none">■ Less experience

- More control
- Increased coordination
- Stability
- Access to top management
- Less objectivity
- Less flexibility
- Less access to top creative talent

ADVERTISING AGENCIES

LO 3-3

Many major companies use advertising agencies 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. More than 14,000 U.S. and international agencies are listed in the REDBOOKs, the leading agency and advertising database; 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 900 agencies in the United States. The top 10 agencies, ranked by their U.S. gross revenue, are listed in Figure 3–5.

FIGURE 3–5

Top 10 U.S. Advertising Agencies, 2018

Rank	Agency	Headquarters	U.S. Revenue (millions)
1	Cognizant Interactive	New York, NY	\$3,672
2	Accenture	New York,	3,526

		Interactive	NY
3	Deloitte Digital	New York, NY	2,812
4	PwC Digital Services	New York, NY	2,490
5	Epsilon-Conversant	Irving, TX	1,873
6	IBM iX	Armonk, NY	1,751
7	Advantage Marketing Partners	Irvine, CA	1,287
8	RRD Marketing Solutions	Chicago, IL	1,181
9	Publicis Sapient	Boston, MA	1,101
10	Wunderman Thompson	New York, NY	1,035

Source: *Advertising Age*, Agency Report 2019, April 29, 2019, p. 31.

Agency Consolidation

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** 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.¹⁹ 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 organization holding companies such as Omnicom Group, WPP

Group, and the Interpublic Group of Companies. Many of the midsize agencies were acquired by or forged alliances with larger agencies because their clients wanted an agency with international communications capabilities and page 81 their alignment with larger organizations gave them access to a network of agencies around the world. The consolidation of the agency business continued into the new millennium as large agencies such as Fallon Worldwide, Leo Burnett, Saatchi & Saatchi, and Kaplan Thaler were acquired by the giant French holding company Publicis Groupe. Agencies that are owned by the top four holding companies—WPP, Omnicom Group, Interpublic Group, and Publicis Groupe—account for a little more than half of revenue generated by agencies in the United States. The fifth major holding company is Tokyo-based Dentsu, which controls nearly 30 percent of the media advertising in Japan and is also strong in several other Asian markets.

With the move toward IMC, agencies are now getting much of their revenue from more than just traditional advertising services, which now account for less than 30 percent of the revenue for U.S. agencies. Agencies' revenue comes from other areas such as digital and media buying, public relations, CRM/direct marketing, healthcare, and promotion.²⁰ Many of the advertising organizations and major agencies have been acquiring companies specializing in areas such as digital/interactive communications, public relations, customer relationship management (CRM), direct marketing, health care, and sales promotion so that they can offer their clients an ever-broader range of integrated marketing communications services. Particularly noteworthy in these numbers is the percentage of agency revenue that is being generated by digital media. Overall, U.S. agencies now generate over half of their revenue from digital media, versus only 25 percent in 2009. The tremendous increase in digital is not limited to the United States. Major agency holding companies such as Publicis Groupe, Dentsu, and WPP generate much of their worldwide revenue from various forms of digital activities.²¹

The Ad Agency's Role

The functions performed by advertising agencies might be conducted by the clients themselves through one of the models 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 with strategic marketing as well as branding. For example, The Lambesis [page 82](#) Agency specializes in using integrated marketing communications to help its clients develop strong brands (Exhibit 3–6).

XHIBIT 3–6

The Lambesis Agency specializes in creating strong brands for its clients.

Source: *The Lambesis Agency*

The screenshot shows the homepage of The Lambesis Agency. At the top left is the logo 'TLA THE LAMBESIS AGENCY'. At the top right are links for 'VIEW AGENCY BOOK' and 'ABOUT | WORK | CASE STUDIES | CAPABILITIES | CONTACT'. The main visual is a photograph of a bright blue sky with scattered white clouds over a calm ocean. Overlaid on this image is the slogan 'WE CREATE ICONIC BRANDS.' in large, bold, white serif capital letters. In the bottom left corner of the page, there is a vertical column of text: 'WE CREATE ICONIC BRANDS THAT ARE STRATEGICALLY GROUNDED, CULTURALLY RELEVANT, AND ENDURING.'

A deeper emotional and cultural connection with the consumer. Brand communications with greater clarity and power. For over 25 years, Lambesis has used a unique creative-driven process to create iconic brands that have garnered international recognition, consumer loyalty and, most importantly, client success. Through a proprietary process that allows diverse departments to work seamlessly together, Lambesis brand development is united by a single vision. The result is meticulously researched and inspired communication platforms that raise brand awareness and resonate with consumers on a deep emotional level. By redefining the art of communication, Lambesis has mastered true branding.

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

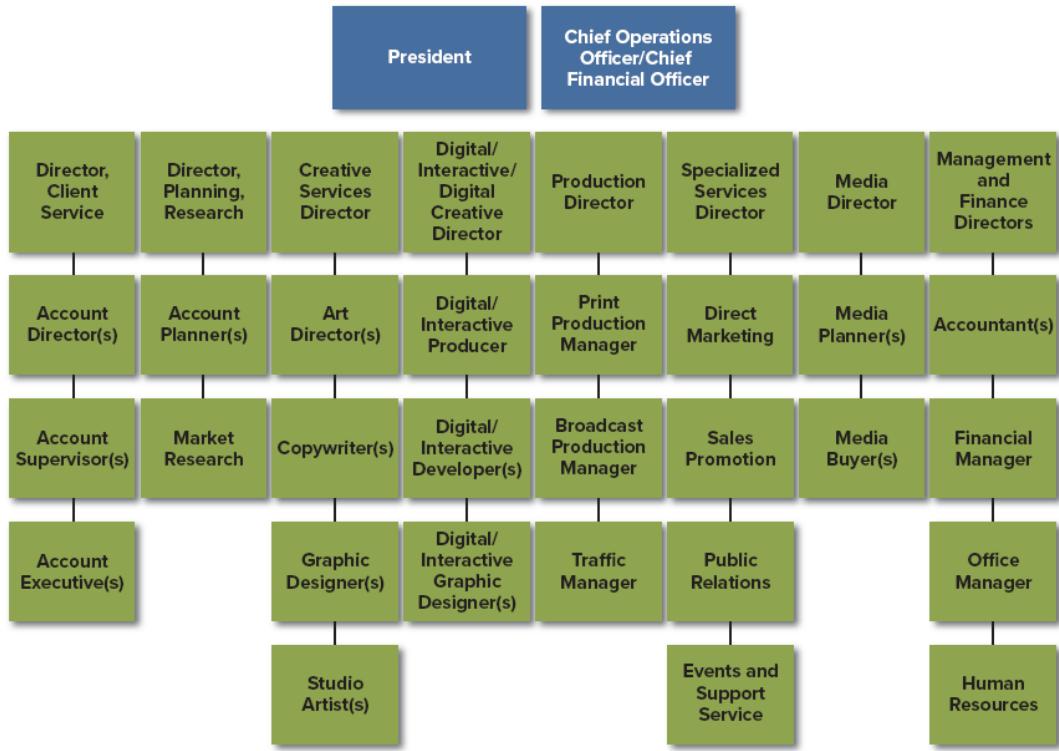
Since ad agencies can range in size from a one- or two-person operation to large organizations with over 1,000 employees, the services offered and functions performed will vary. This section examines the different types of agencies, the services they perform for their clients, and how they are organized.

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 digital/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 3–6.

FIGURE 3–6

Full-Service Agency Organizational Chart



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.

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.²² The ideal account executive has a strong marketing background as well as a thorough understanding of all phases of the advertising process. College graduates with undergraduate and graduate degrees in marketing, advertising, and other disciplines are often hired for account executive positions and go on to have careers in account management. However, with the revolutionary changes sweeping the advertising business, the role of account reps is changing dramatically and they are struggling to remain relevant.²³ Cost-cutting by marketers has thinned the once-bloated ranks of account management personnel

in agencies by as much as 30 percent in recent years. Moreover, for those who remain, the expectations and demands of the position are changing. Agencies want account executives who are good strategic thinkers and have broad-based business acumen, not just expertise in advertising. And as other integrated marketing communications tools such as direct, digital, and social media become more central, they want them to have an understanding of and be able to coordinate activities and relationships in these areas. They also page 83want individuals whose skill set includes solving complex communication problems, communicating in a mature fashion, selling the agency and its capabilities, and knowing when to push back on a client.

Some agencies are developing client-services training programs for their account executives that are designed to educate them in a variety of areas, including basic agency business issues, strategic marketing, the procurement process, and relationship building. Agencies and clients often work together to address this problem by developing communication and indoctrination programs that provide agency personnel with an overview of their clients' business objectives and marketing strategy as well as their financial/budget situation. This allows them to understand the limits within which creative solutions have to be developed.²⁴ Account representatives will continue to serve an important role in managing the relationships between agencies and their clients. However, the days of the old-school account executive in the gray wool suit are long gone as agencies look for more from those who work most closely with their clients (Exhibit 3–7).

XHIBIT 3–7

The role of account executives has changed.

source: John Kuczala/Getty Images



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 was discussed 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 _____ page 84

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, focus groups as well and other copy testing methods are often used to determine how messages developed by the creative specialists are likely to be interpreted by the target audience.

In many large agencies, the marketing services department may include **account planners** who are individuals that gather information that is relevant to the client's product or service and can be used in the development of the creative strategy as well as other aspects of the IMC campaign. Account planners work with the client as well as other agency personnel including the account executives, creative team members, media specialists, and research department personnel to collect information that can be helpful in gaining a better understanding of the client's target audience and the best ways to communicate with them. They gather and organize information about consumers as well as developments in the marketplace that can be used to prepare the *creative brief*, which is a document that the agency's creative department uses to guide the development of advertising ideas and concepts. Account planners may also be involved in assessing consumers' reactions to the advertising and other elements of the IMC program and providing the creative staff as well as other agency personnel with feedback regarding performance.

Account planning has become a very important function in many agencies because it provides the creative team, as well as other agency personnel, with more insight into consumers and how to use advertising and other IMC tools to communicate with them.²⁵ However, the account planning function has also become more demanding as the number of marketing communication channels and ways of contacting consumers increases. Account planners increasingly find themselves interacting with individuals from a variety of marketing communication disciplines and have to keep up with developments that are occurring in all of these areas. John Thorpe, the global brand strategy director for Goodby Silverstein & Partners, an agency that is known for its account planning, notes: "No longer can planners just be good at strategy. It's a cross-silo activity. They have to be good at a lot of things that run across advertising. Ambidexterity is required across the house."²⁶

The advertising industry recognizes the importance of account planning and the important role it plays in the development of successful IMC campaigns. For example, the 4As, which is the leading trade association representing the advertising agency business in the United States, gives the Jay Chiat Awards for Strategic Excellence each year to agencies in various categories. These awards honor strategic thinking and account planning by planners and other agency professionals who have developed innovative insights and ideas that are implemented through creative advertising campaigns (Exhibit 3–8). Previously called the 4As Awards for Account Planning, the awards were renamed in 2004 in honor of advertising legend Jay Chiat, who is credited with introducing the discipline of planning to agencies in the United States.²⁷

XHIBIT 3–8

The Jay Chiat Awards recognize excellence in account planning.

Source: American Association of Advertising Agencies

As/**Jay** **Chiat** **Awards**

Now in its 23rd year, the Jay Chiat Awards recognizes the best strategic thinking in marketing, media and advertising around the world.

“Good enough is not enough.”

— JAY CHIAT

The world of marketing is changing faster than ever. But no matter how fast marketing communications evolves, excellent strategy remains a cornerstone of meaningful consumer engagements.

The global 4As Jay Chiat Awards recognizes the best strategic thinking in our industry. Where awards for creativity and effectiveness reward the output, the Jay Chiat Awards recognizes the input. Last year's winners demonstrated how great strategies lead to ideas that engage us, move us to action, and even change the way we see the world.



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 planning department reviews information on demographics, magazine and newspaper

readership, radio listenership, and consumers' Internet/social media usage and TV viewing patterns to develop an effective media plan. The media buyer implements the media plan by purchasing the actual time and space.

page 85

Media planning and buying has become a very 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. These media specialist firms, which are discussed later in the chapter, serve the media needs of the agencies that are part of their parent holding companies but may also offer media services to other clients.

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 digital/interactive departments to create digital content 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. Advertising agencies are recognizing that they must develop integrated marketing capabilities that extend beyond traditional media advertising.

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 _____ page 86 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, Nike has used film directors such as David Fincher and Spike Lee to direct some of its commercials; BMW has used well-known film directors such as Guy Ritchie and Ang Lee to direct some of its commercials and webisodes. Academy Award winner Martin Scorsese has directed commercials for Dolce & Gabbana, while Ridley Scott has done ads for Apple and Nissan. 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 3–6 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 vary 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 [page 87](#) 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 **Creative boutiques** are small ad agencies that provide only creative services and have long been an important part of the advertising industry. These specialized agencies have creative personnel such as writers and artists on staff but do not have media, research, or account planning capabilities. Creative boutiques have developed in response to some companies' desires to use only the creative services of an outside agency while maintaining control of other marketing communication functions internally. While most creative boutiques work directly for companies, full-service agencies often subcontract work to them when they are very busy or want to avoid adding full-time employees to their payrolls. They are usually compensated on a project or hourly fee basis.

Many creative boutiques have been formed 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. An advantage of these smaller agencies is their ability to turn out inventive creative work quickly and without the cumbersome bureaucracy and politics of larger agencies. Many companies also prefer working directly with a smaller creative boutique because they can get more attention and better access to creative talent than they would at a larger agency.

Creative boutiques will continue to be an important part of the advertising industry. However, they face challenges as many find themselves competing against larger agencies for business, particularly when there are cutbacks in advertising spending. Moreover, many clients want the range of services that large agencies provide as they are often looking for strategic and business-

building ideas rather than just creative work. Many creative boutiques offer additional services as they grow and acquire more clients and become very large and successful independent agencies. IMC Perspective 3–1 discusses Wieden+Kennedy, which is widely recognized as the leading independent agency and has received numerous industry awards for its outstanding creative work for clients such as Nike, KFC, and many other major marketers.

Media Specialist Companies **Media specialist companies** are organizations that specialize in the buying of media, particularly for television and digital advertising. The task of purchasing advertising media has grown more complex, especially with the fragmentation of media audiences and the growth of digital media. Media buying services have found a niche by specializing in the analysis and purchase of advertising time and space. Agencies and clients often develop their own media strategies and hire a media buying service to execute them. However, 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. A major development in the purchasing of advertising media in recent years has been the rapid growth of **programmatic buying**, which refers to wide range of technologies that are automating the buying, placement, and optimization of advertising media.²⁸ Programmatic buying originated in the purchase of digital advertising space where there are myriad options available to marketers and the purchase process is automated and often based on real-time bidding. However, programmatic buying is expanding beyond digital media, as it is being used to purchase television advertising time as well.²⁹ Media buying services are generally paid a fee or commission for their work.

Media specialist companies have become a major part of the advertising industry as clients seek alternatives to full-service agency relationships. Many marketers have been unbundling creative work from media services and consolidating their media buying to get more clout for their advertising budgets. Nike, Hyundai/Kia, and Revlon are among the companies that have moved some or all of their media buying from full-service agencies to media specialist agencies. All of the major agency holding companies own media agencies that can handle media research, planning, and buying for their clients.

For example, Starcom is the media agency for Publicis Groupe, while Mindshare and GroupM are owned by WPP.

IMC Perspective 3–1 >>>

Wieden + Kennedy Uses Its Independence to Become a Creative Powerhouse

In 1982, Dan Wieden and David Kennedy opened a small boutique advertising agency in Portland, Oregon, with only one client—Nike—thus becoming the athletic shoe company's first agency. Over the next decade, the Wieden + Kennedy (W+K) agency became known for the outstanding creative work it was doing for Nike, which included the launch of the iconic "Just Do It" campaign in 1988, as well as for clients such as ESPN and the Miller Brewing Company. During this time, the advertising industry was going through major changes as a wave of consolidation was taking place, and most medium-sized agencies merged with or were acquired by larger agencies and became part of one of the major agency holding companies. However, W+K resisted the merger and acquisition craze and is now the world's largest remaining independent agency. The agency has offices in seven cities around the world and serves companies and brands such as Delta Airlines, KFC, Bud Light, Old Spice, TurboTax, and Ford in addition to Nike.

W+K not only creates high-impact advertising for its clients, the agency is "just doing it" extremely well. *Advertising Age* and *Adweek*, the two major trade publications in the advertising industry, both named W+K as their 2018 Agency of the Year. A year earlier, *Adweek* named W+K its 2017 Global Agency of the Year, noting the agency's ability to adapt its marketing communication skills to win the business of a new generation of brands such as Instagram, Tinder, Netflix, and Fox Sports, as well Airbnb and Lyft, which are at the forefront of the sharing economy. While the advertising industry struggles with the transition from traditional to digital media and client demands to do things faster and for less money, W+K has maintained its old-school commitment to doing inspiring creative work that captures the attention and interest of consumers. Agency co-president Colleen DeCourcy notes that W+K has two forms of success: "One is if it was a great idea and the other is whether anyone cared about it."

W+K continues to create advertising that people not only care about, but also want to share and talk about. For example, the agency created the "Dilly Dilly" campaign for Anheuser Busch's Bud Light brand, and the catchphrase used in the commercials quickly became part of popular culture. The campaign centers around a medieval *Game of Thrones*-type universe where a loyal subject is praised by the king for bringing a six-pack of the beer to a banquet as everyone raises a bottle of Bud Light and cheers "dilly dilly." The Bud Light campaign had a major viral lift during the 2018 Super Bowl when Philadelphia Eagles fans began chanting "Philly Philly" as their team upset the New England Patriots with the help of a trick play that the Eagles quarterback referred to using

the same phrase. W+K saw a branding opportunity and worked with Anheuser Busch to create a bronze statue outside the Eagle's football stadium, showing the quarterback and coach discussing the play, to commemorate the game-winning touchdown. The campaign has been a pop-culture coup for Bud Light as the ads have been viewed millions of times on YouTube and generated tremendous buzz on social media.

Seven months later the agency created the ad featuring NFL quarterback turned activist Colin Kaepernick (discussed in Chapter 1) to mark the 30th anniversary of Nike's "Just Do It" campaign. Although for different reasons, both campaigns put W+K clients at the heart of American culture, and as DeCourcy noted: "They were both release valves on the year for different people at different times." W+K's technology unit, The Lodge, was also behind the "Nike By You Studio," which is a high-tech retail experience center in its New York City store where shoppers can custom-design their own sneakers in less than 90 minutes.



Source: *Wieden Kennedy*

Wieden + Kennedy has done award-winning creative work for a number of other clients through the years, including "The Man Your Man Could Smell Like" commercial for Old Spice body wash, which helped revive a nearly forgotten brand and became the basis of one of the most effective viral marketing campaigns ever done on social media. W+K also helped brand ESPN with its long-running "This is SportsCenter" campaign that focused on behind-the-scenes looks at the network's offices where star athletes, ESPN on-air personalities, and team mascots interacted in mundane but humorous ways. The campaign ran for more than 20 years and became a cultural phenomenon that helped make ESPN the most widely watched cable network and an integral part of the sports world. W+K has also helped turn around U.S. sales for KFC by bringing back the famous Colonel Sanders character who founded the company and having a rotating cast of actors such as comedians Darrell Hammond and Norm Macdonald as well as country singer Reba McEntire play the role.

Those who have worked at W+K over the years believe that the reasons for the agency's success and ability to come up with great creative ideas include its size and independence. The agency does not like to become bogged down in the details of a client's business nor have its creative people develop ads just to keep clients happy. It is very protective of its creative-driven culture, and as a former W+K executive notes: "Without real independence, an agency can never truly be creatively led. The biggest challenge is to protect the creative product." Indeed, W+K has a history of terminating

relationships with clients over differing points of view, such as Miller Brewing Company and Chrysler. In 2017, W+K split with ESPN after 25 years as well as Verizon after only two years.

However, W+K has also gained a number of new accounts recently such as Airbnb, which praised the agency's ability to understand that its soul is in its host community. The agency has created campaigns showing travelers how they can bond with locals and feel the magic of travel through unplanned moments they can experience only with Airbnb. W+K's Amsterdam office also introduced the world to Instagram Stories, the Facebook-owned app's video feature, with a campaign called "Stories Are Everywhere" that superimposed content from Instagram with scenes from the user's own lives.

Wieden + Kennedy has received scores of awards and accolades over the past four decades and has been one of the most widely honored agencies in the advertising industry. However, co-president DeCourcy downplays the significance of all of the awards, pointing to what really drives W+K as she says: "All that matters is the work."

Sources: Jeff Beer, "Just Doing It," *Fast Company*, February 2019, pp. 73–78; "U.S. Agency of the Year: Wieden + Kennedy's Work Resonated Even in a Divided American Conversation," *Adweek*, December 2, 2018, www.adweek.com/agencies/u-s-agency-of-the-year-wieden-kennedys-work-resonated-even-in-a-divided-america/; E.J. Schultz, "Wieden & Kennedy Is Ad Age's 2018 Agency of the Year," *Advertising Age*, February 19, 2018, pp.10–11; Gabriel Beltrone, "Inside Wieden + Kennedy's Evolution into the Go-to Agency for the New Economy," *Adweek*, December 23, 2017, www.adweek.com/agencies/u-s-agency-of-the-year-wieden-kennedys-work-resonated-even-in-a-divided-america/.

A number of large advertisers have consolidated their media buying with these large media agencies to save money and improve media efficiencies. Multinational marketers such as PepsiCo, Unilever, Coca-Cola, and many others also use media specialist agencies to handle their global media buying, which helps them achieve economies of scale and more uniform media strategies and implementation across countries. For example, Mars recently consolidated its \$1.1 billion in worldwide media spending for brands such as Snickers, Skittles, m&ms, and Twix with WPP's GroupM. Mars global media director cited GroupM's ability to use data to drive media planning and buying decisions as a major factor for choosing the agency.³⁰

The rise of the media buying services, operating outside the structure of the traditional ad agency media department, and the divestment of these departments from the agency system are two of the most significant developments that have occurred in the advertising industry in recent years. A study conducted for the Association of National Advertisers found a small percentage of companies still use a "general" ad agency to handle their media

planning and buying, but the vast majority use a media agency specialist to handle these functions. These media specialists are often part of the same agency holding company as the primary agency that handles their page 89 creative work, particularly for large advertisers. However, about a third of the time the media specialist agency is not related to the primary agency.³¹ As the media landscape becomes more complex, technological developments such as the use of programmatic buying, big data, and analytics will become even more important in the media planning and buying process. This will lead marketers to carefully review their media planning and buying processes and may result in even more use of media specialist companies.³² Exhibit 3–9 shows how Initiative, which is one of the largest media specialist companies and is part of the Interpublic Group, promotes its services.

XHIBIT 3–9

initiative is one of the leading media specialist companies.

ource: Initiative



AGENCY COMPENSATION

LO 3-4

As you have seen, the type and amount of services an agency performs vary from one client to another. As a result, agencies use a variety of methods to get paid for their services. Agencies are typically compensated in three ways: commissions, some type of fee arrangement, or percentage charges.

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Commissions from Media

The traditional method of compensating agencies is through a **commission system**, where the agency receives a specified commission (usually 15 percent) from the media on any advertising time or space it purchases for its client. (For outdoor advertising, the commission is $16\frac{2}{3}$ percent.) This system provides a simple method of determining payments, as shown in the following example.

Assume an agency prepares a full-page magazine ad and arranges to place the ad on the back cover of a magazine at a cost of \$100,000. The agency places the order for the space and delivers the ad to the magazine. Once the ad is run, the magazine will bill the agency for \$100,000, less the 15 percent (\$15,000) commission. The media will also offer a 2 percent cash discount for early payment, which the agency may pass along to the client. The agency will bill the client \$100,000 less the 2 percent cash discount on the net amount, or a total of \$98,300, as shown in Figure 3–7. The \$15,000 commission represents the agency's compensation for its services.

FIGURE 3–7

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	-15,000	Less 2% cash discount	-1,700
Cost of media space	85,000	Advertiser pays agency	\$ 98,300
Less 2% cash discount	-1,700		
Agency pays media	\$ 83,300	Agency income	\$ 15,000

Appraisal of the Commission System While the commission system was the primary agency compensation method for many years, it has always been controversial. Critics of the commission system have long argued that it encourages agencies to recommend high-priced media to their clients to increase their commission level. The system has also been criticized on the grounds that it ties agency compensation to media costs, which have been skyrocketing over the past decade. Still others charge that the system encourages agencies to recommend mass-media advertising and avoid noncommissionable IMC tools such as direct mail, sales promotion, public relations, and event sponsorships unless they are requested by the clients.

Defenders of the commission system argue that it is easy to administer and keeps the emphasis in agency compensation on nonprice factors such as the quality of the advertising developed for clients. Proponents of the system argue that agency services are proportional to the size of the page 91 commission, since more time and effort are devoted to the large accounts that generate high revenue for the agency. They also note that the system is more flexible than it appears, as agencies often perform other services for large clients at no extra charge as a way of justifying the large commission they receive.

Companies began moving away from the commission system during the 1990s, and most companies no longer use it as the basis for compensating their

agencies. However, the most recent study of agency compensation conducted by the Association of National Advertisers (ANA) found that 12 percent of major advertisers in the United States still paid commissions to their agencies, which was a significant increase over the 3 percent that did so in 2010.³³ Among those companies that do pay commissions, most do not pay the traditional 15 percent. Most advertisers use a **negotiated commission** system whereby the commissions are based on a sliding scale that becomes lower as the clients' media expenditures increase. Agencies are also relying less on media commissions for their income as their clients expand their IMC programs to include other forms of promotion and cut back on mass-media advertising. An earlier ANA survey of global ad agency compensation found that reliance on commissions is a more common practice outside the United States, as more than a third of global marketers still use traditional media commissions to compensate their agencies. One reason for the higher use of commissions is that in some countries, such as Brazil and Japan, the use of commissions to compensate agencies is mandated by law or is a common practice.³⁴

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 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. This arrangement is similar to the system used by advertisers to pay for other services such as legal, accounting, or consulting. The company and agency agree on a monthly, annual, or overall fee, which can vary according to the salary levels of agency personnel working on the account. In other cases, a flat hourly fee for all work is determined, no matter the salary level of those doing the work. To determine the fee it will charge, the agency assigns costs for salaries, rent, operations, and other expenses and then

determines what amount will recover these costs and provide the agency with a profit.

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 page 92 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. The ANA study found that a fee-based structure is the dominant form of compensation, with over half of marketers using this type of plan.

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 are demanding more accountability from their agencies and tying agency compensation to performance through some type of **incentive-based system**. Recently a new

variation of this system has emerged in the form of *value-based compensation*, whereby agencies are compensated above their basic costs if they achieve or exceed results as measured by agreed-upon metrics.³⁵ The costs are determined by the tasks that the agency is expected to perform, staffing required, and hourly rates. 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 3–8 shows the various performance criteria used, along with the basis for the incentive.

FIGURE 3–8

Performance Criteria Used for Incentive Plans

Performance reviews	82%
Sales goals	53
Brand/ad awareness	51
Achieve project objectives	44
Brand perceptions	33
Copy test results	24
Market share goals	24
Profit goals	24
Other criteria	13
<i>Basis for Incentives</i>	
Agency performance	27%

Company performances	13
Both agency and company	53

Source: Association of National Advertisers, *Trends in Agency Compensation*, 14th ed., 2007.

Recognizing the movement toward incentive-based systems, some agencies have agreed to tie their compensation to performance. 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.

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 percent 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 page 93 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. Companies have continued to make significant changes in their agency compensation plans over the past decade, including increased use of the commission system and value-based compensation systems.

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. The changes in agency compensation are also being driven by economic factors, as most companies cut their advertising and promotion budgets as part of their efforts to save money across all areas of their marketing programs. Most marketers have not increased their marketing budgets and continue to be conservative with their spending for advertising and other forms of marketing communications. While clients recognize that their agencies must be able to make a profit, many are likely to continue to challenge them to reduce internal expenses, identify areas for cost reductions, and tightly manage their controllable spending.³⁶

Companies are also making their agencies more accountable for the fees they charge them for services and are asking for more transparency in how agencies structure, determine, and present fee compensation.³⁷ One of the most significant findings from the ANA Agency compensation survey was the increased involvement of senior management, including finance and procurement departments, in the management and negotiation of agency compensation. A previous ANA compensation survey found that 75 percent of respondents indicated that their procurement departments are involved in the agency compensation negotiations, with nearly half reporting that the process is procurement led with marketing support and only 28 percent saying the process is marketing led.

The involvement of procurement specialists in negotiations continues to affect agency compensation, and a new issue has emerged from the increased emphasis on procurement-driven cost cutting: the practice of media rebates, which are loosely defined as an agency's receipt of a volume discount or compensation from media buys that is not passed on to the client. As discussed earlier, many of the holding companies have spun off their media divisions into freestanding firms that handle only media planning and buying. These large media-buying firms can use their size and power to extract better media prices and cost savings for their clients. However, the issue is whether these savings make their way to the clients or stay with the media buyers. Media rebates are a reviled but tolerated practice outside the United States, and a survey conducted by the ANA revealed that they are becoming more commonplace here as well.³⁸

Marketers and agencies agree that rebates are not a problem if they are disclosed and passed on to clients. However, a problem arises in defining exactly what constitutes a media rebate and what should be passed on to clients, because rebates seldom take the form of a simple cash payment from the media seller to the agency for reaching a volume target. Industry experts note that they often take more creative forms—such as discounts for early payment of invoices, payment from the media company to the agency for research or other services, or bonus inventory—which the media agency may then be able to sell to clients that do not require an invoice. Rebates can also flow into specialized agency holding-company entities, where they become very difficult to track.

Many working in the advertising industry argue that the two sides must find a way to work together. Marketers must recognize that a relationship in which the agency is barely making any money is not sustainable and respect the right of agencies to make a reasonable profit, while agencies will have to continue to find ways to reduce their costs and accept smaller profit margins. However, they note that clients who continue to tighten the vise on their agencies may find the quality of service they receive may suffer when the agency caves in to their demands.

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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 rise, more companies are adopting formal procedures for evaluating the performance of their agencies. For example, a survey conducted by the Association of National Advertisers found that 76 percent of marketers have a formal evaluation process for traditional creative agencies while 68 percent have one for traditional media agencies. The survey also found that qualitative performance is weighted more heavily than quantitative factors. Among the leading qualitative performance criteria identified in the survey were innovation, ideas, teamwork, meeting deadlines, strategy, and implementation. An interesting finding of the study was that formal reviews were much less likely to be conducted for digital, public relations, direct, and multicultural agencies.³⁹

An important consideration in evaluating agencies is the *value* they provide to their client's business. The 4As, which is the trade association for advertising agencies in the United States, and Association of National Advertisers conducted a major study to understand how agencies as well as clients define value and the agency activities that provide the most value to the client's business.⁴⁰ The top seven dimensions of agency activity that advertisers indicated add the most value to their business are shown in Figure 3–9. The study also considered how clients add value to the client-agency relationship and found that the key value drivers include understanding the brand's problems/opportunities, giving the agency the necessary time and resources to do its best work, articulating expected outcomes, giving clear direction, and providing constructive feedback.⁴¹

FIGURE 3–9

How Agencies Add Value to a Client's Business

1. Developing and producing creative ideas that are fresh and appropriate.

2. Ensuring that agency disciplines and functions are integrated and that agency teams and divisions collaborate well on behalf of the client.
3. Working in a collaborative way with the client by creating an environment of low egos and high mutual respect.
4. Developing ideas and programs that can be integrated into multiple communication channels.
5. Assigning its best people to the client's business and making its top executives available when needed.
6. Evaluating brand drivers like awareness, consideration, and purchase intent.
7. Providing guidance and solutions in new media and technologies.

Source: "Report on the Agency—Advertiser Value Survey," American Association of Advertising Agencies and Association of National Advertisers, August 2007.

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Gaining and Losing Clients

The evaluation process described previously 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 since 1920.⁴² Other well-known companies or brands that have had long-lasting relationships include Marlboro/Leo Burnett (64 years), Unilever/MullenLowe (120 years), and Mars/BBDO (84 years).

While many successful agency-client relationships go on for years, loyalty to a single agency is becoming less common as marketers seek new ways of connecting with consumers.⁴³ In recent years, a number of long-standing client relationships have been terminated. For example, in 2018 the Campbell Soup Company ended its relationship with BBDO, which dated back to 1954 and was one of the longest client-agency relationships in the advertising industry.

The reason Campbell's gave for the change was a desire to modernize its marketing model and integrate communications across disciplines.⁴⁴ Another long-standing relationship ended recently when Manulife, the parent company for insurance giant John Hancock, ended its 32-year relationship with Hill Holliday and moved its global creative business to Deloitte Digital. The move caught the attention of many in the industry because it was one of the first times a digital consultancy had moved beyond media and was able to win the creative work for a major advertiser.⁴⁵ The fast-food chain Jack in the Box also ended its 20-year relationship with longtime agency Secret Weapon Marketing a few years ago. Exhibit 3–10 shows an ad the agency ran in several industry publications citing its role in helping the fast-food chain achieve tremendous growth during its tenure.

XHIBIT 3–10

The Secret Weapon Marketing agency says goodbye to its long-time client Jack in the Box in this ad. Gaining and losing clients is a challenging part of the agency business.

Source: Secret Weapon Marketing



secret weapon marketing

August 19, 2015

Goodbye Jack,

It was great working with you for the last 20 years. There aren't too many campaigns that span nearly 400 TV ads and over 200 radio spots.

Thank you for giving us the freedom to buck QSR convention. We're happy to have helped make you so popular. And we're proud to have helped Jack in the Box grow from 1200 to 2200 restaurants.

Remember when we started together, how your stock price was \$3? Who would have thought it would hit \$91? Congratulations.

I don't know what the future holds for you Jack, but all of us at Secret Weapon Marketing wish you the best. It was a great ride together.

Thanks,

Rick

Rick Sittig
Founder and Creative Director

After reading document, please archive.

1658 10th Street, Santa Monica, CA 90404 310.656.0929 secretweapon.net

Some companies switch agencies quite often in search of better creative work or for a variety of other reasons such as reorganizations that lead to changes in top management, changes in marketing or advertising strategy, or conflicts that might arise from mergers and acquisitions among both clients and agencies. A company may also switch agencies in order to consolidate all of its advertising and marketing efforts in one shop. A number of global marketers such as Samsung, IBM, Colgate, Microsoft, and others have reduced the number of agencies they work with in recent years as a way to gain more control over their marketing communications and create a consistent brand image worldwide.⁴⁶

Over the past five years, Procter & Gamble, which is the world's largest advertiser, has been reducing the number of agencies it works with around the

globe. In 2014, P&G had more than 6,000 agencies when it began pooling production and open-sourcing its creative needs with the goal of saving over \$1 billion. By 2018, P&G had reduced the number of advertising and marketing agencies it dealt with by more than half, to 2,500 and plans to reduce this by another 50 percent by 2021.⁴⁷

There are a number of reasons clients switch agencies. Understanding these potential problems can help the agency avoid them.⁴⁸ 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 [page 96](#) 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 approach, they are looking for agencies that have integrated capabilities and can handle more than just their media advertising. A number of companies have changed agencies recently and moved their business to shops that have strong digital marketing capabilities.
- *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. For example, Anheuser Busch has changed agencies several times in recent years for Budweiser to try and reverse declining sales and market share for the brand.⁴⁹
- *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.
- *Disagreements over marketing and/or creative strategy.* Agencies sometimes disagree with clients over the marketing strategy they want to pursue or the creative approach that might be best for the brand. For example, Wieden + Kennedy terminated relationships with several clients, including the Miller Brewing Co., over disagreements regarding marketing and creative strategy.
- *Lack of integrated marketing capabilities.* Many clients are changing agencies in search of a shop with a broader range of capabilities across various integrated marketing communication areas or greater expertise in a particular area such as digital marketing. In some cases clients are looking for an agency that can provide more integrated marketing services under one roof. However, many marketers are moving toward an open source model whereby they hire agencies and other marketing communication partners on a project basis, based on their special talents and expertise.⁵⁰

If the agency recognizes various warning signs in its client relationship, 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 page 97 are just a few of the reasons for such a decision. An agency may also decide to leave for a better business opportunity that allows it to grow and make more money. When agencies become known for doing excellent work and developing effective IMC campaigns, they often have the opportunity to pursue larger clients, which may include a company in the same industry. However, conflict of interest policies preclude an agency from working for more than one company in a product or service category.⁵¹

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 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 some may encourage their business development teams to pursue advertisers who have not even put their accounts up for review.⁵²

Presentations The search process for a new agency usually begins with clients sending out request-for-information documents (RFI) that ask interested agencies to submit basic information. From there, the marketer will narrow its list of contenders and send remaining agencies requests for proposals, or RFPs. For most searches, finalists are asked to prepare a speculative presentation in which it examines the potential client's marketing situation and develops a tentative campaign that includes creative strategies and ideas. The agency may even be asked to develop rough versions of television ads and other creative work. A goal of the agency pitching the account is to make the finalist list and be invited 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 show its previous creative work.

The search for a new agency can take several months, depending upon the number of finalists and the amount of detail expected in the speculative presentation. Because spec 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. Critics also note that in addition to the costs, which can be hundreds of thousands of dollars to pitch a major account, the creative work developed for speculative presentations is often not used and they do not always give a true indication of how the agency and client will work together.⁵³ However, many marketers still feel that spec presentations are an important part of _____ page 98 the process of selecting a new agency and continue to use them. Thus, 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. Search consultants are often used in agency reviews where the ad budget for the account is worth \$10 million or more.⁵⁴ Because their opinions are respected by clients, the entire agency review process may be structured according to their guidelines. However, one study found that while many companies use search consultants to help them with their reviews, they do not always have a direct influence on the final decision regarding which agency they hire.⁵⁵

Many in the advertising industry are calling for changes to the search process, with less emphasis being put on speculative presentations and more on the agency's strategic vision and how it thinks and solves problems. They also suggest that the process needs to be streamlined, with agencies receiving compensation for the time spent preparing their pitch and testing their creative capabilities with specific assignments.⁵⁶ However, it is unlikely that many companies will change their agency selection processes, and agencies will have to continue to follow their procedures if they want to compete for the business.

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 for doing excellent work for the clients it serves. Word travels fast through the advertising and marketing industry regarding the agencies that are doing outstanding creative work in advertising as well as in other areas of IMC. There are many award competitions in which advertisers may enter their work and have it recognized, such as the Effie

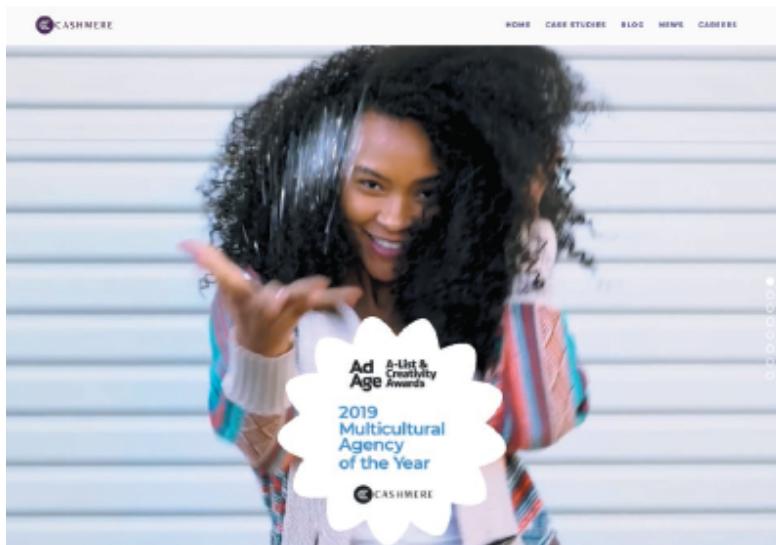
Awards, which are given each year to IMC campaigns based on the results they achieve as well as the strategy that goes into creating them. There are many other awards that recognize outstanding advertising creativity as well as work done in specific areas such as media planning and strategy, digital media, public relations, and sales promotion. For example, the Cannes Lions Awards are presented each year as part of the Cannes International Advertising Festival and have become one of the most prestigious awards in the marketing communications industry. The CLIO Awards are also one of the world's most recognized international advertising, design, and communications competitions and reward creative excellence across a variety of categories and media types.

The major industry publications such as *Advertising Age* and *Adweek* also recognize the top agencies each year based on the quality of their creative work.⁵⁷ Being recognized by these publications, as well as other industry groups and associations, enhances the reputation and image of an agency. Exhibit 3–11 shows how Cashmere used its website to promote its being named 2019 Multicultural Agency of the Year by *Advertising Age*.

XHIBIT 3–11

Cashmere was recognized by *Advertising Age* as the 2019 Multicultural Agency of the Year.

Source: Cashmere



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-Marketing Agencies

LO 3-5

One of the fastest-growing areas of IMC is direct marketing, where companies communicate with consumers through telemarketing, direct mail, television, the Internet, and other forms of direct-response advertising. As this industry has grown, numerous direct-marketing agencies have evolved that offer companies their specialized skills in both consumer and business markets. Many of the top direct-marketing agencies such as Rapp, Wunderman, and OgilvyOne are subsidiaries of large agency holding companies. However, there are also a number of independent direct-marketing agencies including those that serve large companies as well as smaller firms that handle the needs of local companies. Many of these agencies have added digital capabilities as direct marketing and are utilizing the Internet and other digital channels to reach their target audiences (Exhibit 3–12).

XHIBIT 3–12

Direct marketing agencies such as Anderson provide clients a variety of direct and digital marketing services.

Source: Anderson

Direct Mail



Digital Content



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

A typical direct-marketing 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-marketing agencies must solicit new business and have their performance reviewed by their existing clients, often through formal assessment programs. Most direct-marketing agencies are compensated on a fee basis.

Sales Promotion Agencies

Developing and managing sales promotion programs such as contests, sweepstakes, refunds and rebates, premium and incentive offers, and sampling programs are very complex tasks. Most companies use a **sales promotion agency** to develop and administer these programs. Some large ad agencies have created their own sales promotion departments or acquired sales promotion firms. However, most sales promotion agencies are page 100 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 digital and direct/database marketing to expand their integrated marketing services capabilities. Sales promotion agencies are generally compensated on a fee basis. Exhibit 3–13 shows a page from the website of Don Jagoda Associates, one of the leading sales promotion agencies. The role of sales promotion in the IMC program is covered in Chapter 16.

XHIBIT 3–13

Don Jagoda Associates is one of the leading promotional agencies.

source: Don Jagoda Associates, Inc.

PROMOTIONAL MARKETING EXPERTS

CREATING AND EXECUTING
PROMOTION SOLUTIONS THAT MAXIMIZE ENGAGEMENT
AND DELIVER RESULTS FOR 55+ YEARS.

Don Jagoda Associates has administered sweepstakes, contests, games, rebates, loyalty programs and sales incentives since 1962. This experience provides tremendous value to our clients who rely on the promotion professionals at DJA for the best guidance to execute a successful promotion. We are committed to the highest level of quality, service and integrity for every program we administer, from start to finish.

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 increasingly 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.⁵⁸ Public relations firms are generally compensated on a fee basis or by retainer. We will examine their role in more detail in Chapter 17.

Digital Agencies

With the rapid growth of the Internet and other forms of digital media, a new type of specialized marketing communications organization has evolved to meet the changing needs of marketers: the digital agency. Many marketers are using **digital agencies** that specialize in the use of various digital marketing tools such as website design and development, apps, search engine optimization (SEO), banner ads, video, mobile marketing, and social media campaigns. They recognize that the development and implementation of digital marketing programs requires an understanding of and expertise in areas such as digital media, content marketing, e-mail marketing and lead generation, database and customer relationship management, measurement, and analytics.

In addition to their advertising agencies, many marketers now choose to work with agencies that specialize in digital marketing and thus have more depth and experience in the field. This has led many large agencies to develop their own digital shops that operate as separate entities within the agency, such as Arc, which is part of the Leo Burnett Group, and Digital BBDO. Also, a number of other large digital agencies such as Publicis Sapient, AKQA, DigitasLBi, and R/GA are owned by major agency holding companies, which provides other agencies in their network with a digital resource. Many traditional advertising agencies have developed digital capabilities ranging from a few specialists within the agency to entire digital departments that work closely with other parts of the agency in developing integrated campaigns for their clients. For example, Wieden + Kennedy began expanding its digital capabilities several years ago as cofounder Dan Wieden noted that the challenge of integrating the digital revolution into the advertising world will either transform the agency or “render us inert.”⁵⁹ Another agency that has

developed strong online capabilities is Deutsch, which handles digital work for clients such as Taco Bell, Snapple, and Dr. Pepper.

While most agencies have developed digital capabilities, a number of marketers are turning to more specialized agencies to handle their digital marketing work. A major development over the past several years has been the rapid growth of consultancies, such as Accenture, PwC, Deloitte Digital, and IBM, which are divisions of major management consulting companies that offer digital marketing, CRM, analytics, and other technology-focused services. *Digital and Social Marketing Perspective 3–2* discusses how consultancies are shaking up the marketing industry.

As the Internet and digital media become increasingly important marketing tools, more companies will be turning to digital agencies to help them develop successful integrated marketing programs. The growth of social media and mobile marketing is also giving rise to companies that specialize in developing applications and campaigns for Facebook, Twitter, Instagram, Snapchat, and other social platforms. For example, there are a number of companies that help marketers build, monitor, manage, and measure their social media efforts across a variety of social and mobile platforms. These companies work with marketers to develop various ways to engage consumers, including various types of promotions as well as through user-generated photo, essay, and video contests. The number of digital agencies, as well as companies that specialize in the development of campaigns for social and mobile media, will continue to grow, as will their importance, as marketers move more of their IMC efforts away from traditional media into the digital space. In addition, many digital agencies are expanding their capabilities in order to offer clients a variety of services such as strategy and planning, data analysis and modeling, digital creativity, retail activation, and CRM. Exhibit 3–14 shows how Mirum—one of the leading global digital agencies, whose clients include Nextel, Qualcomm, Mazda USA, and Axe—promotes its capabilities.

XHIBIT 3–14

Mirum provides digital and many other services to marketers.

Source: Mirum Agency



We are a borderless agency of over 2500 digital experts, storytellers, technologists, makers and relentlessly curious minds. Across the globe, we make experiences that people want and businesses need. Our approach is to be entrepreneurial and to create agile teams that blend strategy, creativity, technology, media and analytics to drive innovation. We work to discover business and human motivations because we believe experiences build brands.

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Digital and Social Media Perspective 3–2 >>>

Consultancies Shake Up the Ad Industry

Throughout the 20th century and into the new millennium, the advertising industry was dominated by traditional advertising agencies. One of the most significant developments was the merger in 1986 of three major agencies (BBDO, Doyle Dane Bernbach, and Needham Harper) into a new holding company called the Omnicom Group. *Advertising Age* termed the merger the “Big Bang” because it served as the catalyst for a flurry of mergers and acquisitions that led to consolidation of the agency business and the formation of the four major agency holding companies that dominated the industry for the next 20 years. However, another major change has been occurring over the past several years that may be just as disruptive as the Big Bang, as old-guard agencies find themselves competing against a different type agency whose parent companies are known more for their accounting or management consulting expertise than advertising or marketing. In 2017, for the first time ever, the marketing services divisions of four consultancies—Accenture Interactive, PwC, IBM iX, and Deloitte Digital—were among the top 10 largest agency companies in the world, and they have retained their rankings.

The consultancies do not receive the attention and notoriety of traditional advertising agencies whose focus is often on doing breakthrough creative work for their clients. Most of them have positioned themselves as adjuncts to ad agencies by offering clients consulting services along with expertise and capabilities in technology, data, analytics, content creation, and other areas that have become vital to marketers in the new digital era. They are also leveraging their access to high-level executives, such as chief marketing officers and vice presidents, and wooing them with data-driven approaches to consumer insights and the best ways to communicate with them, particularly through digital media. The major consultancies provide accounting, information technology, and management consulting services to the vast majority of the world's top companies and often can work from the top down—through CEOs and other C-suite executives—rather than working up through marketing departments and corporate hierarchies. They also position themselves as offering solutions to challenges that advertising agencies cannot solve and as cost savers, whereas ad agencies are perceived as cost drivers, which results in the consultancies being scrutinized less by procurement and finance departments.

The rapid growth of consultancies is also a reflection of the movement from advertising-dominant marketing to more integrated approaches that consider the entire consumer journey. Brian Whipple, a former ad agency executive who is the managing director of Accenture Interactive, notes that "historically brands have been built by pushed messages with ads that gave suggestions about how you should feel or emote or think about a product or service. We don't believe that is true at all anymore. Instead Accenture's philosophy is that brands are built through hundreds of consumer interactions ranging from e-commerce experiences to how people are treated in physical stores." An example of how Accenture Interactive does this is the work the agency did to help sandwich chain Subway introduce a new initiative called Subway Digital to help personalize its customer experiences. The project included the development of the MyWay loyalty program and the back-end design of Subway's app, which now includes ordering and pay functionality. Another consultancy, IBM iX, has used its Watson supercomputer and artificial intelligence system in a partnership with General Motor's OnStar safety and security system to deliver personalized brand messages to drivers. The program, called OnStar Go, delivers location-based information for hospitality, restaurants, entertainment, fueling stations, and other services to drivers of GM vehicles.

Thus far, consultancies have not moved too far into the creative space dominated by the advertising agencies. However, most industry experts argue it is only a matter of time before they begin to do so. Consultancies are already doing digital work for their clients, and it is very likely they will use the vast amounts of data and insights they have on consumers to move into the creative turf of advertising agencies. A vice president and research director at Forrester Research notes that consulting firms will play a major role in advertising in the future: "They are making a play for this space and they have the cash to do it. They are here to stay." Several consultancies have already made creative agency acquisitions: IBM acquired Resource/Ammirati; Deloitte purchased San Francisco-based Heat; and Accenture Interactive acquired Karmarama, a large independent creative shop in the United Kingdom.

The consultancies have so far held off a full frontal assault to take away business from traditional advertising agencies. However, as *Advertising Age* writer Mark Wnek notes: "It would be a brave person who would bet that consultancies, with their hooks far deeper into the C-suite than agencies, noses unbloodied by transparency issues around media

buying and such, will now fail to close the deal." The consultancies sent a message that they do indeed plan to move deeper into the advertising business when Accenture Interactive paid nearly \$500 million in 2019 to acquire Droga5, a leading independent agency widely recognized as a creative powerhouse. The acquisition of Droga5 put to rest the idea that consultants pose little threat to advertising agencies because their creative capabilities might be limited.

Sources: Lindsay Stein, "Agency of the Future: Survival of the Fittest," *Advertising Age*, April 2, 2018, pp. 12–25; Mark Wnek, "How Mad Ave Opened the Door to Management Consultancies," *Advertising Age*, January 12, 2018, <https://adage.com/article/agency-viewpoint/mad-ave-opened-door-management-consultancies/311780/>; E. J. Schultz, "The Race Is On!" *Advertising Age*, May 1, 2017, pp. 12–17; Judann Pollack, "Behind Accenture's Groundbreaking Droga5 Deal," *Advertising Age*, April 3, 2019, <https://adage.com/article/agency-news/accenture-interactive-set-buy-droga5/317215>.

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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, graphic design companies, talent agencies, video production houses, and event marketing services 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.

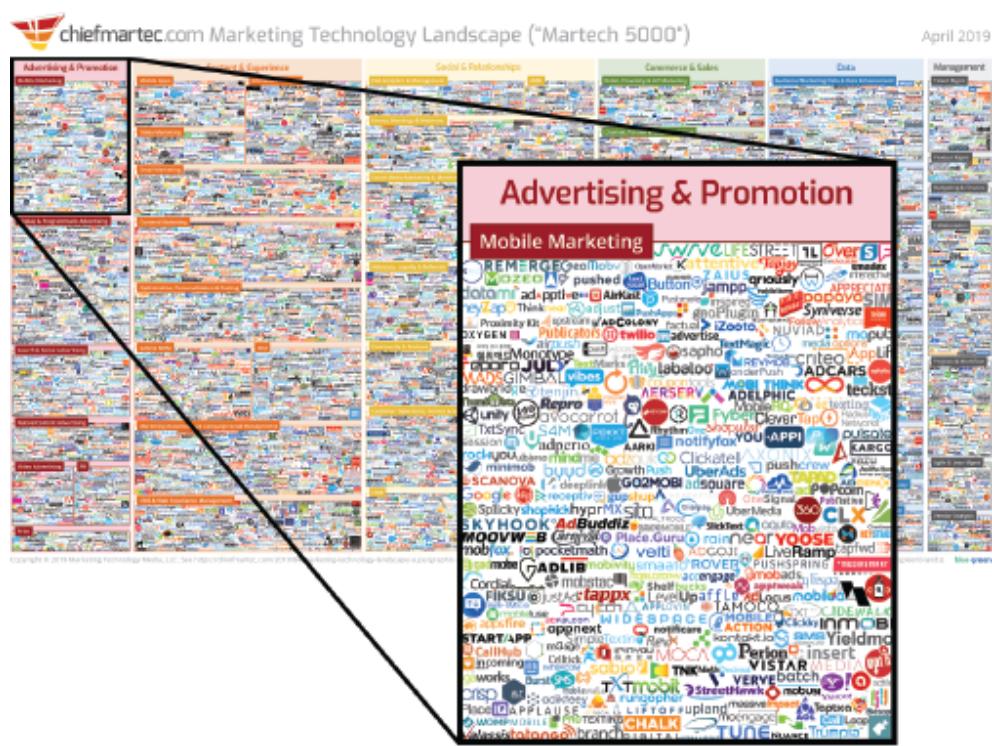
As more companies make digital marketing an integral part of their IMC programs, new types of marketing technology services have emerged and are being used by marketers as well as agencies. These technologies focus on areas such as mobile, content, and e-mail marketing as well as social media, programmatic media buying, customer experience, analytics, and other

specialized areas. Each year, Chief Marketing Technologist blogger Scott Brinker tracks the marketing technology landscape and the number of companies that provide marketing technology solutions and shows them in his popular *Marketing Technology Landscape* super-graphic, which can be found at chiefmartec.com. Exhibit 3–15 shows his 2019 chart, which includes more than 7,000 marketing technology solutions, many of which are used by marketers in developing, implementing, and measuring the effectiveness of their IMC programs.

XHIBIT 3-15

The Marketing Technology Landscape has become very complex.

Source: Marketing Technology Media, LLC



INTEGRATED MARKETING COMMUNICATIONS SERVICES

LO 3-6

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. Many large agencies have broadened ^{page 104} their IMC capabilities by developing internal expertise or by acquiring specialists in various fields. We have also seen how many companies are handling more of their IMC programs in house, not only to save money but also because of the need to have more control over their digital marketing.

Pros and Cons of Integrated Services

There has been an ongoing debate for years as to whether control of the IMC program should be maintained by the client or should be in the hands of the agency. 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.

Proponents of integrated marketing services contend that past problems are being solved and the various individuals in the agencies and their subsidiaries are learning to work together to deliver a consistent message to the client's customers. They argue that maintaining control of the entire IMC 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 marketing, digital/social, events, sales promotions, and public relations—through one agency. An agency with integrated marketing capabilities can create a single image for the company or brand and address everyone with one voice.

But not every company 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.⁶⁰

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.”⁶¹

The already complex client-agency relationship is becoming even more challenging as a result of several other factors, such reductions in marketing budgets; the accompanying desire of companies to reduce the cost of their IMC programs; and the tremendous increase in the use of social media, mobile marketing, and other nontraditional forms of communication. A study by Forrester Research called “The Future of Agency Relationship” suggests that one of the biggest challenges facing marketers today is knowing who to turn to when they want to change their advertising and/or IMC strategies. The study notes that many of the major agencies are trying to bundle all of the traditional and nontraditional services together and position themselves as being able to offer all of them.⁶² However, the more likely scenario is that marketers will have a number of agencies from different areas working on their business, and it is important that they get them to work together. They also must decide who is going to be in charge of managing and coordinating the IMC program. Some companies, particularly those involved heavily in e-commerce or having major technology components to their business, are now opting to have digital agencies, such as consultancies, lead their IMC programs.

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.⁶³ 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 some 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.⁶⁴ A study by the Corporate Executive Board's Advertising and Marketing Roundtable surveyed the heads of advertising and marketing communication departments at global companies as well as agency executives regarding the use of multiple agency partners. The study found that the traditional, static model of a single ad agency or a fixed roster of agencies working on a brand is being supplanted by an open-source model for some marketers. Under this model, marketers hire numerous disparate marketing partners—sometimes on a project basis—to leverage their special talents and expertise as needed.⁶⁵ The CEB report notes that clients will increasingly be relegating their lead agencies to be brand stewards and coordinators of a network of specialists in various IMC areas.

Many advertising agencies do not accept the premise that they must accept a new role as stewards and coordinators of specialists. These agencies still view themselves as strategic and executional partners and are adding more resources to offer their clients a full line of services. They are expanding their agencies' capabilities in digital/interactive, 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. Steven Center, the former chief marketing officer for Honda of America, takes a position that is probably

shared by most top marketing executives. He notes that “Agencies are exposed to much more than us, and they have to bring in raw ideas, market reconnaissance, and intelligence. But they will not tell us how to organize our company to accomplish our marketing mission. That responsibility should always fall entirely with the owner of the brand.”⁶⁶

Preparing for the Future

As noted throughout the chapter, much has changed in regard to client–agency relationships, particularly over the past two decades. Traditional advertising agencies are facing competition from a variety of specialist companies, particularly in the areas of digital marketing and information technology, as well as the clients themselves who are bringing more of their IMC functions in-house. Agencies must be able to prove their value to clients and show how they are providing solutions to their marketing communications problems, not just services. Tim Williams, founder of Ignition Consulting Group, a leading advertising agency consulting company, has created a framework that outlines fundamental elements that agencies must work on in order to transform themselves and be prepared for the future. Williams refers to these elements as the Foundations of the 2020 agency and groups them into eight different areas, as shown in Figure 3–10. These elements do not involve simple modifications, such as adding additional services and capabilities, but rather call for fundamental changes in the way advertising agencies view their business model and serve their clients. Williams argues that agencies need to consider how to refocus and redefine their offerings to clients to make themselves indispensable, which will require them to carefully examine their service models and how they operate their businesses.⁶⁷

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FIGURE 3–10

Foundations of the 2020 Agency

Areas	Foundational Elements
Accountability	

- Responsibility for outcomes, not just outputs
- Attention to success metrics vs. just cost of service
- Measuring what matters: results for clients instead of agency time

Agility

- Agile philosophy applied to work flow
- Prototyping and minimum viable products
- Interdisciplinary teams vs. departments

Collaboration

- Culture that values collaboration over managing hours
- Teams of givers, not just takers
- Agency partners as peaceful competitors

Digital Fitness

- Individuals with high digital IQ
- Digital as competency across agency, not just a department
- Deep understanding of data and personalization

Effectiveness

- Provider of solutions, not just services
- True project management vs. tracking of hours
- Focus on effectiveness for clients, not just efficiency for agency

Expertise

- Knowledge of specific markets or audiences

- Best-in-class business model vs. full service
- Centers of excellence and best practices

Innovation

- Revenue streams from intellectual property, not just work for hire
- Labs as independent business units
- Marketing invention business, not just service business

Pricing

- Pricing as a core competency versus costing
- Aligning the economic incentives of both client and agency
- Professional sellers negotiating with professional buyers

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 organizations, 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 requirements, 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. However, there has been an increase in the number of companies that are using in-house agencies to handle all, or at least part, of their IMC programs. The move toward greater use of in-house agencies is being driven by the increased use of digital marketing which requires companies to produce more IMC content and to do so in a timely manner.

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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, marketing, 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 digital 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 are seen as major barriers to agencies' increased involvement in integrated marketing communications. Agencies must be able to

prove their value to clients and show how they are providing solutions to their marketing communications problems. A framework was presented that outlines fundamental elements that agencies must work on in order to transform themselves and be prepared for the future.

Key Terms —

- clients** 71
- advertising agency** 71
- agency of record (AOR)** 71
- media organizations** 71
- specialized marketing communication services** 72
- collateral services** 72
- advertising manager** 73
- centralized system** 73
- decentralized system** 74
- brand manager** 74
- category management system** 74
- in-house agency** 77
- billings** 80
- superagencies** 80
- full-service agency** 82
- account executive** 82
- account planner** 84
- copywriter** 85
- departmental system** 86
- group system** 86
- creative boutiques** 87
- media specialist companies** 87
- programmatic buying** 87
- commission system** 90
- negotiated commission** 91
- fixed-fee method** 91
- fee–commission combination** 91
- cost-plus system** 92
- incentive-based system** 92
- percentage charges** 92
- financial audit** 94
- qualitative audit** 94

direct-marketing agencies	99
sales promotion agency	99
public relations firm	100
digital agencies	101

Discussion Questions

1. Discuss how disruptions being created by digital media and other technologies are impacting advertising agencies. What changes do agencies need to make to respond to these disruptions? (LO 3-3, 3-5)
2. Who are the various participants in the integrated marketing communications process? Discuss the roles and responsibilities of each and how they are changing, given developments occurring in the advertising industry. (LO 3-1)
3. It has been argued that the traditional model of a full-service, lead advertising agency is becoming obsolete. Discuss the changes occurring in the industry and how they are affecting the traditional lead agency model. (LO 3-3, 3-5, 3-6)
4. Discuss the various challenges faced by companies that use the brand management system when organizing for advertising and promotion. What are some of the things that marketers can do to address these problems and ensure that their brand managers are keeping abreast of external changes occurring in the market? (LO 3-2)
5. Discuss the pros and cons of using an in-house advertising agency. Why are many companies moving their advertising in-house rather than using an outside agency? (LO 3-2)
6. IMC Perspective 3-1 discusses the outstanding creative work done by the Wieden + Kennedy agency. Find an example of award-winning advertising W+K has created for companies/brands such as Nike, KFC, Bud Light, or Old Spice. Discuss why this advertising has been recognized for its creative excellence. (LO 3-3)
7. Discuss the various ways agencies are compensated and how they are changing. Which type of agency compensation model is likely to become dominant, given the changes occurring in the industry? (LO 3-4)

8. Figure 3-5 shows that more than half of the largest advertising agencies are now consultancies such as Accenture Interactive, Deloitte Digital and IBM iX. Discuss the reasons marketers are using consultancies to handle their advertising and other areas of marketing communication versus traditional advertising agencies. How might traditional agencies respond to the page 108 threats they are facing from consulting companies? (LO 3-6)

9. Discuss the reasons why advertising agencies lose accounts. Find an example of a company that changed advertising agencies and identify the factors that led the company to switch to another agency. (LO 3-4)

10. Discuss the pros and cons of a marketer having one agency handle all of its integrated marketing communications needs versus using specialized marketing communications firms to handle various components of it. (LO 3-6)



connect

Available only through your Connect course, help make key advertising and IMC concepts more meaningful and applicable:

- SmartBook 2.0
- Connect exercises, which may include: click-draggs, video cases, and case analyses.

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4

Perspectives on Consumer Behavior



Elsa/Getty Images

Learning Objectives

- LO 4-1** | Discuss why an understanding of consumer behavior is valuable in developing advertising and promotional programs.