

## CHAPTER 2

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# The Advertising Industry

### LEARNING OBJECTIVES

Students will be able to:

1. Identify the organizations that comprise the industry
2. Identify and describe the various advertising management systems used by clients
3. Identify the roles and responsibilities of clients in the advertising development process
4. Describe the roles and responsibilities of the agency in the advertising development process
5. Discuss the nature of relationships between clients and agencies
6. Distinguish among the various types of advertising agencies
7. Outline the organizational structure of agencies and the functions of agency personnel
8. Identify the key concepts associated with managing a client's business
9. Identify the methods of compensating advertising agencies.

### CHAPTER HIGHLIGHTS

#### A. Composition of the Advertising Industry

There are five primary groups: advertisers, agencies, media, advertising support companies and audience measurement companies.

##### ***Advertisers (The Client)***

This group includes manufacturers, retailers, service firms, governments, and non-profit organizations. Among the largest advertisers are Procter & Gamble, Rogers

Communications, Bell, General Motors, BCE, the Government of Canada, and Ford Motor Company.

Canadian advertisers' views are represented by the *Association of Canadian Advertisers*. The ACA's mandate is to exercise leadership in advancing the advertising interests and responsibilities of Canadian advertisers.

### ***Advertising Agencies***

Agencies are service organizations that create, plan, produce, and place advertising messages for their clients. Essentially, four multi-national communications conglomerates control the ad agency business worldwide—Omnicom (American), WPP (British), Interpublic (American), and Publicis (French). Most of the large agencies in Canada are owned by American organizations and are part of an International network of agencies. The largest Canadian-owned agency is Cossette Communication Group. Students should be familiar with the different types of agencies available to advertisers (e.g., full-service versus specialty-boutique operations). Smaller, regional agencies tend to serve the needs of local and regional clients.

The *Institute of Canadian Advertising* represents the views of full-service agencies. Its mandate is to act as spokesperson, negotiator, and defender of advertising practices and procedures and to undertake tasks to promote the growth of member agencies.

### ***The Media***

There are three broad categories: *broadcast* (television and radio), *print* (newspaper, magazine, outdoor, transit, and direct-response), and *digital* (Internet and various forms of mobile communications). Revenue generated from all media sources is approximately \$14.4 billion. Television is the largest single medium with advertising revenues followed closely by the Internet. Within a few years the Internet is forecast to surpass television.

### ***Advertising Support Companies***

Students should be aware of the major support (resource) groups that work with a variety of interested parties in the advertising industry. Included in this group are commercial production companies, music and sound specialists, and media representatives who sell time and space. Production companies that specialize in interactive communications are growing and their role is such that they are taking business away from traditional agencies.

### ***Media Support Services***

Support organizations help promote the medium they represent in order to increase that medium's share of revenue. In this group are organizations such as the Television Bureau of Canada (TVB), Newspapers Canada, Magazines Canada, the Out-of-Home Marketing Association, and the Interactive Advertising Bureau.

### ***Research and Measurement Companies***

These organizations provide information that assists media planners. Included in this group of companies are BBM Bureau of Measurement, Nielsen Media Research, Audit Bureau of Circulations, Nielsen/Net Ratings, and Print Measurement Bureau.

## **B. Client-Side Management**

Advertising can be managed several different ways in a client organization. Among the more common alternatives are brand management and category management, regional management and global management.

1. ***Brand or Category Management*** - Advertising and other marketing planning activities are the responsibility of a brand manager (product manager). In some cases a category manager oversees the activities of a team of brand managers.
2. ***Regional Management*** - Advertising management based on geography to ensure that advertising plans are developed considering the varying needs in different regions. Regional managers can respond quicker to changes in the marketplace.
3. ***International Management*** - Clients interested in worldwide opportunities are looking for agencies with international affiliations. "Think globally and act locally" is now a common battle cry among multinational advertisers. Their goal is to implement campaigns that will work in as many markets as possible (e.g., all of North America instead of separate campaigns in Canada and the United States). Good ideas, regardless of their source should be used as it saves money in terms of production (the cost of producing advertising materials).

## **C. Client Responsibilities in Advertising Planning Process**

Responsibility for advertising management varies according to the management structure of an organization. While job titles vary from one organization to another, the advertising manager's responsibility is divided into six main areas:

1. **Briefing Agency on Assignments** – The advertising manager compiles and presents all relevant information for an advertising assignment. Communications briefs typically include market data, competitor information, brand information, market share data, a positioning strategy statement, a list of key objectives to achieve, and the budget for the assignment. The nature and scope of a brief varies from client to client.
2. **Coordinate Advertising with Other Marketing Communications Strategies** - Ensuring that advertising works congruently with other elements of the marketing mix and marketing communications mix. Cohesion is vital in order to maximize impact of the message. Blending traditional media with digital media (online, phone, social media and video games) and video games is a major challenge for the advertising manager and the agency.
3. **Liaison With Advertising Agency** - Day-to-day contact with agency personnel. Major areas of concern centre on getting agency assignments completed on time and securing senior management approval for advertising recommendations.
4. **Monitoring the Advertising Program** - Ensuring that activities are implemented according to plan (e.g., media expenditures or adapting to changes when necessary throughout the year).
5. **Evaluating the Advertising Program** - Being accountable for the success or failure of the campaign (e.g., did the campaign achieve the objectives established in the advertising plan?). The manager may conduct appropriate research to evaluate advertising activity.

#### D. Agency Roles and Responsibilities

1. **To Provide Experience/Expertise in Communications** - In accordance with the marketing plan, the agency develops the communications component of the plan (advertising, sales promotion, experiential marketing, and other activities may be part of the plan). Clients may utilize specialized agencies for various components of a plan or they may employ a full-service agency that plans and implements all elements of the plan.
2. **To Provide Planning Assistance** - Agency account groups are external planners who can provide client assistance in areas other than advertising. They can look at the bigger picture and provide clients with new points of view.

3. **To Provide Objectivity in Planning** - The agency can present recommendations that will have an impact on the target market. Such recommendations should not have to conform to the internal working expectations of the client. They must strive to get the client to accept ideas that they believe will work. They must encourage a client to take certain risks and move in completely new directions if the situation so dictates. Advancing communications technologies are forcing organizations to adapt to new ways of doing business.
4. **Active Liaison with Clients** – It is important that agencies and clients communicate regularly. Account managers should be in constant touch with the client regarding assignment progress. Managers at comparable levels of both organizations should also keep in touch with each other to foster better understanding and relations.

## E. Client-Agency Relationships

The relationship between a client and agency is a business partnership. This relationship is often very delicate and the relationship can turn sour for many reasons. Unsatisfactory relationships lead to a significant amount of **account shifting** (movement of an account from one agency to another) each year. Some common reasons for account shifting include: client dissatisfaction with quality of advertising, new communications demands not being adequately served, philosophical differences in style/approach, perceived chemistry problems among people on both sides (people change over time so relationships are in a state of flux), clients' decisions to consolidate their business with fewer agencies, and account conflicts due to mergers. Several good examples of why accounts are shifted are included in the chapter.

To encourage the best possible working relationship, both parties are urged to evaluate the performance of each other on an ongoing basis. The review and evaluation process can flag potential problem areas and allow for corrective action where applicable. A good relationship depends upon honest and open communications. A reality of the business however is that agencies frequently take the fall when sales and market share goals are not met.

In recent years there has been a migration toward short-term relationships. Clients are assigning work to agencies on a project basis. With this approach agencies find that they must continuously prove their worth in order to be assigned new work. Results are essential! As well, many clients now farm out work to specialists, especially digital specialists, feeling that their expertise is what's needed when shifting dollars into interactive media.

## F. Types of Advertising Agencies

Clients have a choice of working with communications generalists or communications specialists. There are arguments in favour of both alternatives.

1. **Full Service Agencies (Generalist)** - A full-service agency provides clients with a complete range of services (advertising, public relations, sales promotion, marketing research, direct response, etc.). Clients are now searching for agencies that can provide integrated marketing communications. Full-service agencies are typically divided into three main areas: account management, creative, and media. Many have expanded their operations to include other services to the point where they refer to themselves as marketing communications agencies. Many full-service agencies have acquired “specialist” expertise (e.g., digital media expertise) to meet client demands and expectations.
2. **Creative Boutiques (Specialist)** – An agency specializing in the development and execution of creative (message) ideas. Such a boutique is typically staffed with personnel who gained experience at a full service agency. It is common for account personnel and creative to join forces when opening a creative boutique. Such was the case when Rethink started up in Vancouver. These experts enjoy working in smaller shops where they can be closer to the clients (to do what they do best).
3. **Media Buying Service (Specialist)** – An agency responsible for planning and buying cost-efficient media for a client. This specialist is not concerned about the message, but how to spend scarce media resources wisely. A majority of media placements in Canada are planned and bought by a media buying company. Several large media buying companies dominate the industry in Canada, Group M being one of the largest.
4. **Direct-Response, Digital and Experiential Specialists** - Other communications specialists are available for services such as direct response advertising, online advertising and experiential marketing campaigns. Digital agencies, for example, differentiate themselves by offering web-based services such as web design and development, search engine marketing and online communications strategies (banner, and video display ads. See the discussion about Twist Image in the chapter for more details. Agencies such as Mosaic and Capital C are experts in developing experiential marketing campaigns for clients seeking face-to-face interchanges with customers. Other specialists focus on product categories and industries (e.g., healthcare agencies) and specific target markets (e.g., agencies that specialize in campaigns for baby boomers or youth targets). Such agencies are serving the unique needs of demanding clients.

The type of agency a client chooses to work with depends on a host of factors such as size, the need for certain types of services, the extent of geographic coverage required and existing affiliations with agencies. Generally speaking, there is a trend toward using specialist agencies.

## G. Roles and Responsibilities of Agency Personnel

A typical full-service agency is divided into three functional areas: account management, creative, and media.

1. **Account Management** - This group manages the affairs of the agency's clients. As consultants and coordinators, the primary task is to advise clients on strategic planning and motivate agency resources to build a client's business. Typical position titles include: account executive or account planner (junior management), account supervisor (mid-management), and account director (senior management). The account executive defines the task, provides information to creative and media personnel and presents recommendations to the client.
2. **Creative Department** - This group is responsible for the generation of communication ideas and concepts. Headed by a creative director who is ultimately responsible for the quality of creative output, the department consists of copywriters (message) and art directors (visual). The copywriter and art director work together as a team creating ads for a select group of clients. Copywriters develop the main idea while art directors are responsible for the visual image. Production managers provide technical advice and work closely copywriters, art directors and external suppliers. Traffic managers are responsible for ensuring materials reach their media destination on time.
3. **Media Department** - This group is responsible for the planning and placement of media time and space. Functional responsibilities include: media planning, media buying, and media research. Position titles include: media buyers (make effective/efficient buys), media planner (assess strengths, weaknesses, and cost efficiencies of alternatives), media supervisor (mid-level position managing buyers and planners), and media director (senior-level administrative position accountable for planning and placement of all media).

## H. Managing the Client's Business

### **Agency Teams**

Advertising agencies usually designate an **account group** or **team** to handle a client's business. This group consists of a cross-section of personnel from the agency including an

account executive, copywriter, art director, account supervisor, media planner, and media buyer. For the client, an account group (team concept) provides two main benefits: even if changes do occur in the structure of the group, the group is familiar with the client's business, and a certain consistency in approach will prevail.

The team concept has recently expanded now that the digital media is part of the picture. It is important for specialists in traditional media and digital media to meet during the planning stages of a campaign in order to develop and assess potential ideas that will work in all media. Such teams are referred to as **hybrid teams** (bringing the two areas together). In many cases the digital team is often the lead in such meetings. Based on consumer behavior, all media are now being funneled through the \internet. This has important ramifications for both creative teams and traditional media teams.

### ***Competing Accounts***

Agencies avoid conflict situations. Since the client-agency relationship is a confidential partnership, agencies do not accept assignments from advertisers that compete with their current clients.

### ***Agency of Record***

Many advertisers divide their advertising assignments between several agencies. In such cases, the client usually designates one agency to be the *Agency of Record* (AOR). The AOR is the central agency responsible for media negotiation and placement for an advertiser using more than one agency. The AOR is responsible for corporate contracts under which other agencies issue placement orders. The AOR may be a full-service agency or a media buying company depending upon how a client organizes its advertising activities. The AOR usually receives higher compensation than other agencies working for the client.

## **I. Agency Compensation**

Advertising agencies receive compensation on the basis of commissions, a fee structure, or by performance. In the **commission system**, the agency receives a 15% rebate from the media based on the dollar volume of time and space purchased on behalf of the client. Example illustrations are contained in the textbook. Advertisers are now seeking better deals with agencies and they are negotiating lower rates of commission.

In a **fee system** the client and agency agree on an hourly, annual, or overall fee. Common practices include minimum guarantees, hourly rates, and cost plus profit margin schemes. Fee systems tend to be cumbersome and require lots of administration to work



effectively. As well, the system does not consider the quality of work produce by the agency.

In a **payment by results (PBR)** system actual performance determines the level of compensation. Such a system eliminates traditional media biases and allows for more objective media recommendations by agencies. If the desired results are achieved, an agency could make even more than what a traditional commission rate would have generated. For this system to work the key is to have both client and agency agree to results that are achievable. This compensation system is growing in popularity and for certain is forcing agencies to look at all forms of marketing communications as a means of generating the desired results. Refer to Figure 2.7 for more details about PBR.

## ADDITIONAL ILLUSTRATIONS OF KEY CONCEPTS

### 1. Seeking a Creative Agency: Who's at the Top of the Canadian Advertising List

*Strategy* magazine acknowledges Canada's best creative agencies each year. Among the agencies that have a good track record each year are the following:

- Leo Burnett
- DDB
- BBDO
- Rethink
- Cossette
- Taxi
- John Street
- Sid Lee
- Grey
- Red Urban

Are any of your students looking for a work placement or internship? They may as well learn from the best.

### 2. Biggest Merger Ever in Adland

As separate companies they were among the world's top four agency conglomerates. Merged together they are one of the biggest! In July 2013, Publicis Groupe SA and Omnicom Group Inc. agreed to merge in an all stock transaction to create the world's largest advertising company with \$23 billion in revenue. Former leader WPP Plc drops to second place in the size rankings.

No doubt, management conflicts and account conflicts will follow the merger but in defending the merger both companies stated “we share a culture based on our clients. A lot of the world’s biggest accounts are now under one roof. Among the clients affected by the merger are PepsiCo, Nissan, Philips Electronics, McDonald’s and Procter & Gamble.

According to the CEOs of each company “merger talks started out as a joke, but the more we looked at the idea the less we thought it was stupid.”

Adapted from “Publicis to combine with Omnicom to create top advertiser,” *Bloomberg*, July 29, 2013, [www.bloomberg.com](http://www.bloomberg.com).

### **3. Canadian Tire Offers Sound Rationale for Changing Agencies**

Client-agency relationships are often on tender hooks and change is always in the wind. Canadian tire made a big decision when it hired a new agency. The account had been handled well by MediaCom, a division of WPP Worldwide, but Canadian Tire was looking for “new direction” in a marketplace that was changing fast.

Omnicom Media Group is the new agency. “Our decision to consolidate with one media agency was driven by the need to get more strategic and more efficient in how we do things across all of our divisions,” said Duncan Fulton, senior vice-president corporate affairs at Canadian tire. “We saw a benefit in working with one integrated media services team who can have line of sight and drive media strategy across all of our businesses. Beyond the Canadian Tire brand, the company also owns FGL Sports (Sport Chek and other retail sporting goods banners) and Mark’s.

Adapted from “Canadian tire moves media to Omnicom Media group,” *Marketing*, June 12, 2013, [www.marketingmag.ca](http://www.marketingmag.ca).

### **4. Thanks but No Thanks: Frito Lay Dumps Juniper Park**

Juniper Park a very successful Toronto-based agency originally opened with Frito Lay as its inaugural account. The agency handled the global account for the brand and has done some exciting work for it. Several successful Super Bowl campaigns and contests were among the work.

But, in the age of globalization Frito Lay (a division of PepsiCo) was looking to globalize the brand and its marketing strategies. Parent company PepsiCo is doing the same thing. When this strategy is in place a client seeks an agency network that can effectively coordinate marketing communications activities anywhere. Frito lay decided to go with Omnicom’s BBDO network of agencies.

As a consolation Juniper Park retains the Quaker portfolio (another division of PepsiCo). It's a big loss for Juniper Park. Globally the chip brands control 31% of the market. Media spending for Sun Chips and Lay's chips combined was in the \$50 million range annually. Whether working of fee or commission that is a financial setback for Juniper Park.

This example demonstrates that agencies have little control over their destiny with a client. Their work may be good and the relationship sound but bigger such as global efficiency take precedence over any human factors in the partnership. As usual, it's always about the money!

Adapted from "Juniper Park Loses Big hunks of Frito Lay, *Marketing*, August 2, 2011, [www.marketingmag.ca](http://www.marketingmag.ca).

## 5. Agencies Don't Burn Bridges

Molson Coors decided to put their account into review meaning the current agency would have to pitch the account again in order to retain it. Crispin Porter + Bogusky Canada, the current agency decided not to pitch the account.

Molson acknowledges that the partnership with CP+B has been successful. It was a 7 year relationship that saw core brand Molson Canadian successfully repositioned in Canada with effective advertising produced by the agency. The agency literally reversed the fortunes of Molson Canadian.

CP+B took the high road after being dismissed. Jeff Steinhour, president, stated: "We are privileged to have partnered with Molson Canadian for the past seven years, during which time we were able to reverse the decline in sales and significantly grow the brand for the first time in a decade. We are extremely proud of the work and success we've had together, however we do not pitch existing accounts. We remain close friends with Molson Canadian and wish them much success going forward."

We will never know the real story but the agency's explanation doesn't burn any bridges, it actually sets up their sales pitch for another beverage account. They have proven they can reverse the fortunes of a brand in a highly competitive market. Someone will knock on their door.

Adapted from "Molson starts agency review," *Marketing*, September 20, 2011, [www.marketingmag.ca](http://www.marketingmag.ca).

## 5. New Agency Models

Full-service agency, digital agency, social media agency: what kind of agency do I need? Different clients have different needs and it makes for interesting decisions on the type

of agency to hire. Some clients want big, global agencies while others want small boutique agencies, and there's also everything in between.

Digital shops haven't knocked out full-service agencies and social media agencies are still just circling their predecessor digital agencies. Most discussion today about new agency models suggest smaller is better. Clients are seeking agencies that produce fast, cheaper creative solutions. The result is an influx of small shops employed with few full-time staff and an army of freelancers hired on a client-by-client-basis. New agencies such as Zulu Alpha Kilo (Toronto) and slingshot (Vancouver) operate on this basis.

Another new development is the crowdsourcing agency, the opposite of the smaller, cheaper concept. This type of agency operates with freelance-led, modular creative teams—a loose network of creative people working on projects on an as-needed basis. These agencies bill themselves as huge and nimble. Cloud (a Toronto-based agency) operates with this model.

Adapted from Jeromy Lloyd, "New Agencies vs. Old Agencies," *Marketing*, February 28, 2011, p. 23.

## 6. Thanks but No Thanks: You're fired!

No matter how you tell it (e.g., it was a mutual parting of the ways after a successful partnership) sometimes the honey-coated explanations passed to the public don't pass the smell test.

To demonstrate, consider the parting of the ways between Coca-Cola Zero and agency CP+B. The explanation went this way: "After an extremely successful seven-year relationship, Coke Zero and CP+B have decided to part ways. We are all very proud of the results we have achieved together and will continue to partner on the Vitamin Water account (a consolation prize!) as well as other potential projects going forward."

Many analysts saw it as a surprising split given the length of the relationship and the success of the brand. CP+B did excellent creative work on the brand and their message "all of the taste of Coke without the calories" is responsible for positioning the brand in the customer's mind. In the United States Coke Zero spent about \$35 million in measured media. Whether CP+B worked on commission or a fee system, they stand to lose considerable revenue as a result of the dissolved partnership. Make you wonder!

Adapted from "CP+B loses North American duties for Coke Zero," *Marketing*, July 3, 2012, [www.marketingmag.ca](http://www.marketingmag.ca).

## 7. Canada's Leading Advertisers

Packaged goods, telecommunications, and automobile lead the charge in advertising spending in Canada. Here is the latest list available for Canada's top 10 advertisers for 2008. Please be advised that Nielsen Media Research no longer publishes publically the dollar value spent by advertisers.

1. Rogers Communications
2. Procter & Gamble
3. BCE Corporation
4. E1 Entertainment
5. Government of Canada
6. General Motors Corporation
7. Ford Motor Company
8. McDonald's
9. Provincial Government :Lotteries
10. Chrysler Dodge Jeep Ram Dealers Association

Source: Top 10 and Trends, The Nielsen Company, 2012 data. ed from, " U.S. dollars in millions for the year 2005. charge in advertisng spending in Canada. s on staff and will be full

## 8. WPP Group Creates Team Mazda to Meet All Marketing Needs

A new agency model for managing a client's business has been implemented by WPP. Team Mazda will operate as a separate unit of WPP an offer its expertise and services in any and all aspects of marketing and marketing communications.

WPP embraces the practice of building dedicated teams for client pitches which appeals to the "integrated" needs of most clients and the efficiencies that come with it. Other agencies look at this model and wonder, "Can they deliver what they promise?"

Team Mazda will have about 100 employees, a single profit and loss statement and its own leadership. All disciplines will be represented, from traditional advertising and media planning and buying and digitals media, direct marketing, public relations and analytics.

Mazda is looking forward to the partnership and sees open and direct dialogue as a key benefit to the management model. He sees good communications leading to a firm understanding of objectives among both parties. Mazda spends about \$150 million in measured media in North America each year.

Adapted from Andrew McMains, "WPP Looks to Repeat Success of Team Detroit and Learn from its Enfatico Stumble with Dell," *Adweek*, July 26, 2010, [www.adweek.com](http://www.adweek.com).

## 9. Tips for Making Agency Evaluations Work

To effectively evaluate an agencies work clients must start evaluating all aspects of marketing communications the agency is accountable for. There is a tendency for clients to focus on creative when conducting evaluations. Agency evaluations must be a productive experience. Here are five tips for accomplishing that goal:

- All marketers, even those with small budgets, should conduct formal agency reviews regularly.
- Use a consistent format for all agency types, though specific questions can vary.
- Present results in person and discuss them openly with the right agency people.
- Have clear corrective action plans with due dates assigned to "owners."
- Try to eliminate game playing and politics. Be open and honest with the feedback so that agency personnel can consider corrective actions. The repercussions should be positive rather than negative.

Adapted from Jack Neff, "ANA Survey: Agency Performance Reviews are Now Business as Usual," *Advertising Age*, September 14, 2009, p. 3.

## ANSWERS TO END-OF-CHAPTER QUESTIONS

### Review Questions

1. The three primary groups comprising the advertising industry: advertisers, advertising agencies, and the media. Creative and media support companies and audience measurement can also be included as industry participants.
2. Common systems for managing the advertising function include: brand and category management, regional management, and global management. Brand and category management involves the development of advertising for national brands regardless of location in Canada. Regional management considers geographic and cultural differences and develops advertising that is best suited to unique regional needs. Global management involves using successful ad campaigns from one country in other countries.

3. The client (usually represented by the advertising manager or marketing manager) has five primary roles: planning and budgeting, coordinating advertising strategies with other communications strategies, monitoring the implementation of plans, evaluating plans for effectiveness (e.g., their ability to achieve desired results), and liaising with agencies on a day-to-day basis.
4. Agencies have three primary roles: to provide experience and expertise in the areas of creative planning and media planning, or any other aspect of communications that the client demands; to provide planning assistance where necessary (e.g., this assistance may go beyond communications planning); and to provide objective ideas and concepts that will help sell the client's products (e.g., provide customer-focused campaigns rather than client-focused campaigns).
5. Client-agency relations refer to the nature and quality of the relationship between the two partners. Both parties must take the necessary steps and actions to ensure there is a good working relationship. For example, establishing reasonable objectives that both can agree to is a good first step. Having a system in place that ensures good two-way communications is another step. Taking the time to evaluate each other's performance is another step in the relationship-building process. Other factors work against the relationship. For example, not providing a sufficient level and quality of service, philosophical differences in creative direction, and lack of effective communications all contribute to a poor working relationship.
6. Account shifting is a situation where clients move from one agency to another during the course of a year (e.g., a client fires one agency and hires another). The sum total of such actions by all clients and agencies is called account shifting. Account shifting is a sure sign of poor working relationships between the two parties.
7. A full service agency can be equated to a one-stop shopping concept. Clients that use full service agencies expect service in a variety of communications areas: advertising, public relations, direct response, Internet, sales promotion and so on. In contrast, specialists such as creative boutiques and media buying services focus on one particular area, usually claiming that such a focus will produce better campaigns for their clients. Trends indicate that specialists are becoming more prominent with clients.
8. The **account management** group is made up of consultants who manage client business/advertising affairs. They provide advice on strategic planning matters and are responsible for motivating agency staffers to build the client's business. The **creative department** is responsible for the generation and development of communication ideas

and concepts. The **media department** is responsible for the planning and placement of media time and space on behalf of the client.

9. Agency teams (account groups) are formed by the agency as a means of managing a client's business. The team consists of a cross-section of agency personnel (creative, media, and account management). Such a concept is important to the clients as they want agency personnel to be totally familiar with their competitive situation and advertising requirements at all times. Also, clients usually look for consistency in how an agency handles their business. What the clients want is a management approach from the agency that will complement their long-term marketing planning.
10. The Agency of Record is a term describing the central agency responsible for media negotiation and placement for a multi-product advertiser using more than one agency. Such a designation provides the client with more efficient media buying (e.g., greater corporate discounts when purchasing time and space through a central service).
11. The three methods for compensating an agency are **commissions, fees, and payment by results**. In the commission system, the agency receives a 15% rebate from the media based on the total value of media time and space it purchases for a client. Several options are available in the fee system (e.g., an agreed upon hourly rate for various agency personnel, minimum guarantees, and costs plus profit margin). In the payment by results system, agencies agree to work for a lower commission but will receive bonuses if they meet and exceed desired results. Details regarding objectives to be achieved have to be mutually agreed to well in advance.
12. The commission earned by the agency would be:

For time and space:	$\$3\,000\,000 + \$450\,000 + \$250\,000 \times .15$	=	\$555 000
For production:	$\$400\,000 + 60\,000 \times .1765$	=	\$81 190
Total Commission:		=	\$636 190
Media Receives:	$\$3\,700\,000 - \$555\,000$	=	\$3 145 000
Client Pays:	$\$3\,700\,000 + \$460\,000$	=	\$4 160 000

### Discussion Questions

1. The purpose of this question is to have students evaluate the pros and cons of using full service agencies or a team of specialist agencies. There are good arguments in favour of either direction. Firms with global objectives seem to be teaming up with networks of full service agencies while firms with primarily domestic objectives can use either a full service agency or teams of specialists. Specialists are attracting a lot more interest as



creative boutiques now focus on specific forms of communications (e.g., direct response and digital) or communications for specific industries (e.g., pharmaceutical advertising).

2. This is an opinion question. Generally speaking the client should not be too involved in the development of creative strategies. Clients provide information and advertising experts develop the ads. That's why the agency was hired in the first place. Clients who interfere or who have too much say often results in a poor working relationship with the agency. The result is client-driven advertising rather than customer-driven advertising. It is the client's money however so their input cannot be neglected.
3. Students should analyze the meaning of the word *partnership* and provide their own insight into how a client-agency partnership should operate. The characteristics of a good partnership are much like that of a good marriage (I often draw this analogy in class). Factors such as trust, understanding, respect, open communications, and common goals are the ingredients of a successful relationship. When any of these factors starts to sour, the relationship will hit some rocky patches and eventually disintegrate.
4. Global campaigns are very hard to implement due to language and cultural differences. Generally, they are only used by the biggest and most resourceful companies as is the case with the McDonald's 'I'm Lovin' It' campaign. Nike's "Just Do It" campaign would be another example. If successful such campaigns provide cost savings on the production side of the equation.
5. With clients tightening their belts at every turn, they want to use the payment-by-results system more than before. If clients and agencies believe in the "partnership" model than both parties should commit to the task at hand, and in the case of an advertising agency, stand behind the quality of work it produces. If that work it doesn't sell the client's product, their compensation should be less. Oppositely, an agency should reap the rewards if a campaign is successful.

## VIDEO CASE 1

**Crispin Porter + Bokusky**

**Time: 8:30**

### Key Issues

*Advertising Agencies*

*Traditional Media versus Digital Media*

*Application of IMC Components*

*Media (IMC) Integration*

This video examines the fundamental operations of a very successful advertising agency. The roles of various departments and specific occupations are introduced. A key theme in the video is the “importance of message” as the key ingredient to influencing consumers to look favourably on a brand. The video also points out that there aren’t any right and wrong solutions. Rather, experimentation is necessary if the desired results are to be achieved. The video also introduces the various marketing communications components (advertising, public relations, events, promotions and social media) and suggests that only the proper components be used when solving a client’s problems.

### Discussion Questions

1. What is the fundamental role of an advertising agency?
2. What is your opinion of the expression “It’s ideas, not media channels that create relevancy for a brand.”
3. Is experimentation (with an idea or a media channel) wise given the scarcity of advertising dollars available?

### VIDEO CASE 2

#### Strawberry Frog

Time: 11:28

#### Key Issues

*Advertising Industry*

*Agency Structure and Roles*

*Client-Agency Relations*

*Project Management*

Time: 11:28

This video dramatizes a new style of advertising agency that is in touch with changing market conditions and client expectations. Strawberry Frog is smaller and more nimble than traditional agencies that have bureaucratic structure and onerous global networks. In the video the students will see first-hand how an agency is structured to manage client projects. The various roles of key positions and departments are examined including account management, account planning and research, creative development, media planning and buying, and internal services. Students will get a feel for what it’s like to work in a fast-paced agency environment.

### Discussion Questions

1. Briefly explain the role and responsibilities of an account manager?
2. How does the creative development process work?
3. What is the basic function of media planners and buyers?

# Canadian Advertising in Action

Keith J. Tuckwell

10th Edition



# Part 1 – Advertising and Marketing Communications Today

## Part 1

- Advertising and its role within the integrated marketing communication mix.

## Chapter 1

- Examines the role of advertising within marketing and marketing communications activities.

## Chapter 2

- Introduces key organizations in the marketing communications industry and the responsibilities of clients and agencies.

# Chapter 2

## The Advertising Industry

# Learning Objectives

After studying this chapter, you will be able to:

- Identify organizations that constitute the advertising industry
- Identify and describe the various advertising management systems used by clients
- Identify the roles and responsibilities of clients in the advertising development process
- Describe the roles and responsibilities of the agencies in the advertising development process

Continued...

# Learning Objectives (cont.)

- Discuss the nature of relationships between clients and agencies
- Distinguish among the various types of advertising agencies
- Outline the organizational structure of agencies and the functions of agency personnel
- Identify the key concepts associated with managing a client's business
- Identify the methods of compensating advertising agencies



# Composition of the Advertising Industry

The Canadian advertising industry comprises six primary groups:

## 1. Advertisers (the client)

- Includes manufacturers, retailers, service firms, technology companies, governments, and non-profit organizations.

## 2. Advertising Agencies

- Service organizations responsible for creating, planning, producing, and placing advertising messages for clients.

## 3. Media

- Consists of *broadcast* (radio and television), *print* (newspapers and magazines), *out of home* (transit and outdoor), *direct response* (direct mail and direct response television), and *digital* (internet, social media and mobile).

# Composition of the Advertising Industry

## 4. Advertising support companies

- Includes research companies that measure and evaluate the effectiveness of advertising messages, photographers, radio and television commercial production houses, print production specialists, music and sound production companies.

## 5. Media support services

- Support groups that help to educate potential advertisers about the merits of their particular medium (i.e. Television Bureau of Canada, Interactive Advertising Bureau of Canada).

## 6. Research and audience measurement companies

- Organizations that compile and publish media measurement data (i.e. Nielsen Media Research, Print Measurement Bureau, BBM Bureau of Measurement).

# Client – Side Advertising Management

- Brand Management
  - Formulating and implementing marketing strategies for assigned brands.
- Category Management
  - Developing marketing strategies for all products/brands in a particular market.
- Regional Management
  - Developing marketing strategies in designated regions to help meet regional diversity.
- International Management
  - Developing global strategies that can be tweaked to meet local market conditions. " *Think globally and act locally*".

# Advertising Agency Roles and Responsibilities

- Provide experience and expertise in communications
- Provide planning assistance
- Provide objectivity in the planning process
- Promote active liaising with clients

# Client Responsibilities in the Advertising Planning Process

- Brief agency on assignments
- Coordinating advertising with other marketing communications
- Monitoring the advertising program
- Evaluating the advertising program
- Liaising with Advertising Agency

# Client-Agency Relationships

The key to a healthy relationship and successful advertising depends on:

- A healthy and prosperous client-agency relationship
- A partnership that encourages open and honest communications
- Trust and respect for each other
- A willingness to accept constructive feedback

# Client-Agency Relationships

Deteriorating relationships between the client and agency can result in **account shifting**. Account shifting is the movement of a client account from one agency to another.

Common reasons for Account Shifting:

- Quality of ads or service provided
- New communications demands not adequately served
- Philosophical differences
- Lack of team chemistry between the two organizations
- Client consolidates their business with fewer agencies
- Conflict situations

# Types of Advertising Agencies

The type of service the client requires will determine the type of agency they work with. The types of agencies found in Canada include:

- Full-service agencies
- Creative boutiques
- Media-buying services
- Direct response, digital, and experiential communications specialists
- Industry specialists

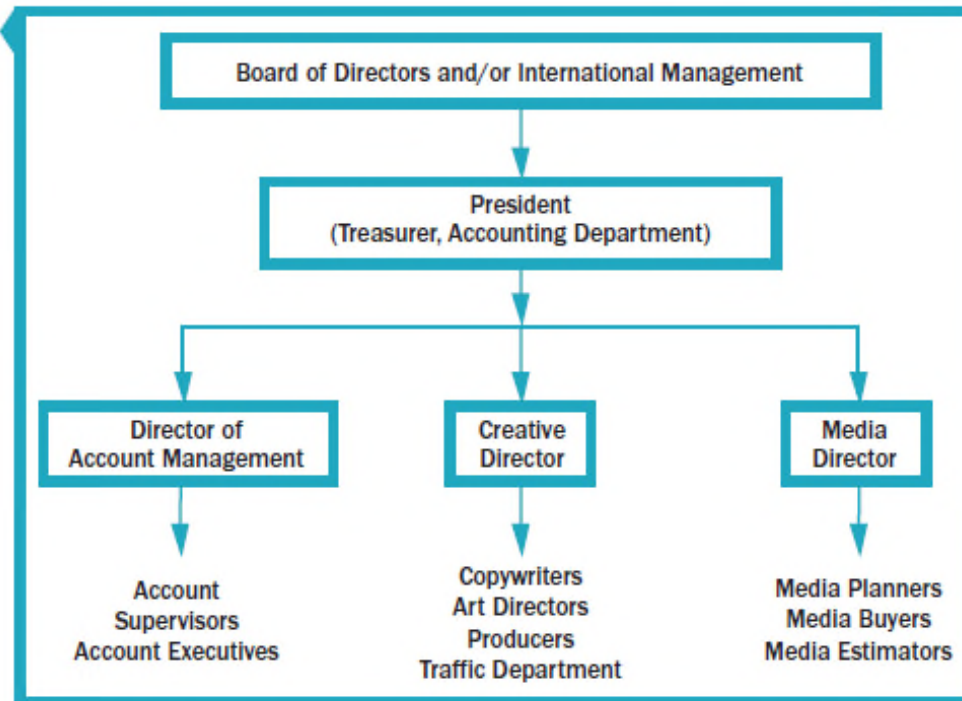


# Structure and Management of the Full Service Agency

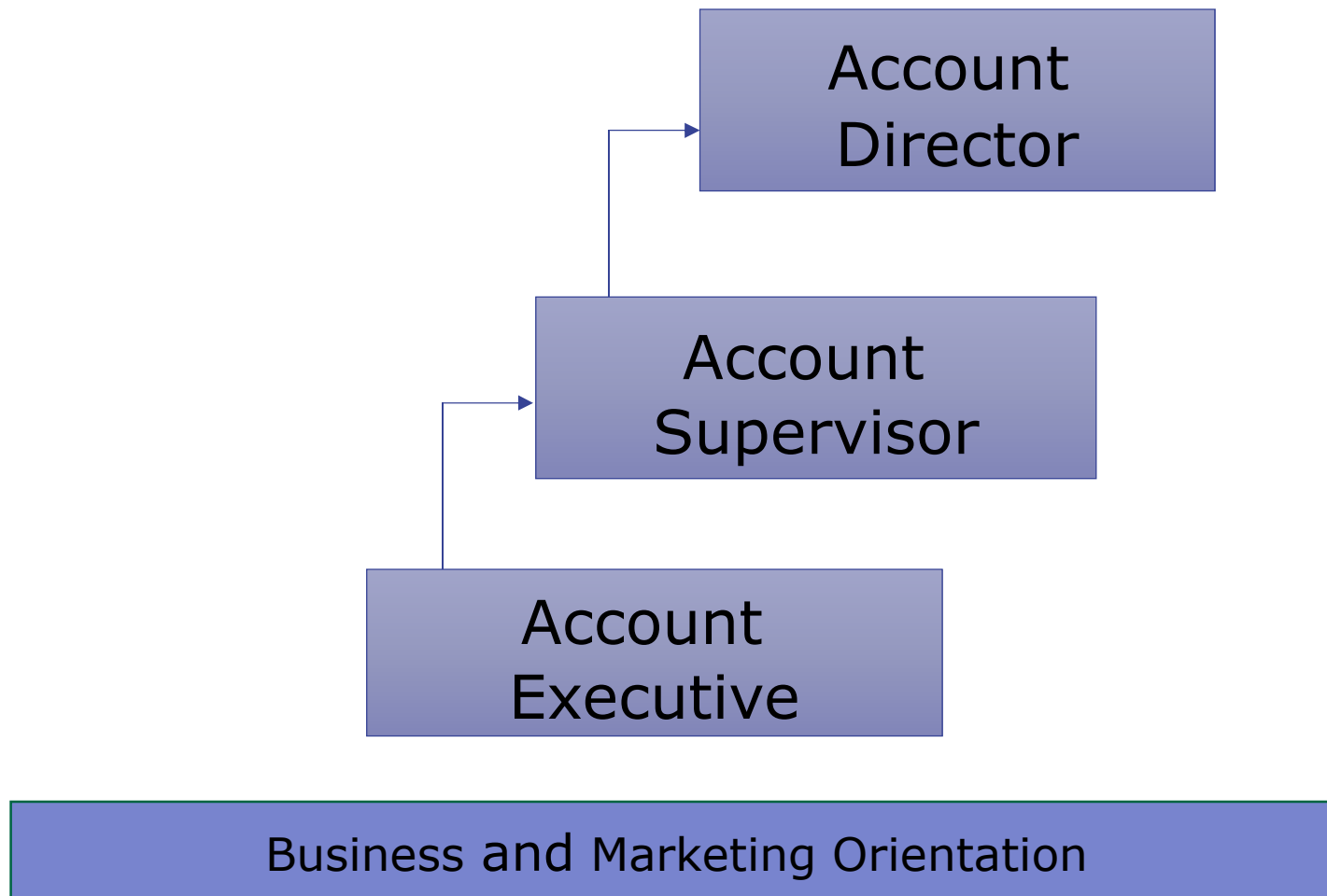
**FIGURE 2.3**

Organizational structure of a full-service agency

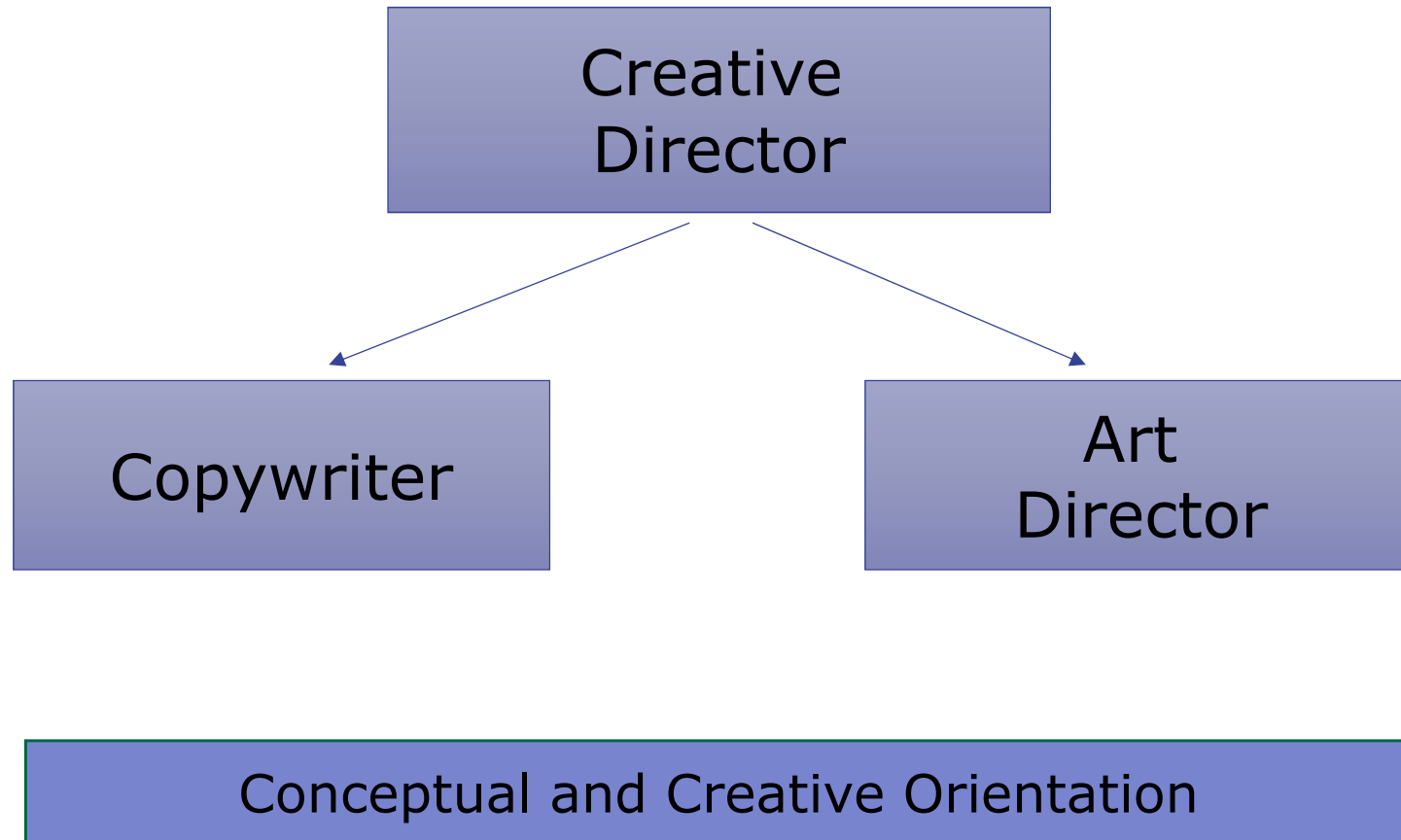
Source: Institute of Communication Agencies.



# Account Management



# Creative Department



# Media Department

Responsible for planning and placement of advertising time and space.

The main functions of the media department are:

- Media planning
- Media buying
- Media research

# Media Department

The key positions in the media department are:

- Media planner
  - Assesses the strengths, weaknesses, cost efficiencies, and communications potential of various media to develop the media plan.
- Media buyer
  - Responsible for developing an intimate knowledge of the media marketplace and being aware of any developments affecting media buying.
- Media director
  - Varies based on size of agency but is ultimately responsible for all media plans.

# Managing the Client's Business

- Agency Teams
  - Account executive and account supervisor
  - Art director and copywriter
  - Media planner and media buyer
  - Hybrid teams
- Competing Accounts
  - Generally agencies will not accept assignments from a client who is in direct competition with a current client.
- Agency of Record
  - Central agency responsible for media negotiations and placement.

# Agency Compensation

## Commission System

- Standard Commission Rate (15%)
- Reduced Rate Commissions

## Fee System

- Minimum Guarantees
- Hourly Rates
- Costs Plus Profit

## Payment by Results

- Reduced rate percentage plus incentives for achieving goals
- Typical goals may be brand market share, advertising effectiveness and advertising recall