

Advertising & Sales Promotion Management

Chapter 4 The Advertising Agency – Structure & Functions

Learning Objectives

- Understand the business of advertising
- Know about evolution of advertising agencies
- Have an overview of the structure and functions of ad agencies
- Appreciate the types of advertising agencies
- Understand the various means of compensation of ad agencies

4.1 Introduction

- Advertising agencies exists for seller looking for customers.
- Defined as “Advertising agencies, is an independent business, composed of creative and business people, who develop, prepare and place advertising in advertising media selling to find customers for their goods / services” - The American Assoc of Advertising Agencies.
- It acts as a consultant to its client in formulating advertising plans and translating it into advertising campaign.

4.1 Introduction

- Responsible also as a custodian of the brand.
- Defined also as “Marketing service firm that assists its clients in planning, preparing, implementing and evaluating various activities of advertising campaign.
- Despite glamour surrounding them, ultimate goal is to promote and sell the products that they advertise for.
- Various functional specialist work in an agency.

4.1 Introduction

- Let's take this little quiz: (Recall the brand names)
- Neighbour's envy, owners pride
- Just Do It
- The complete man
- Taste the thunder



4.2 Major Players of the Advertising Process

- Advertiser
- Advertising Agency
- Media
- Suppliers
- Target Audience

4.2 Major Players of the Advertising Process

- Advertiser
 - Advertiser needs to send out a message about its product / services.
 - To advertise, advertiser needs to;
 - Identify marketing problem
 - The target audience
 - The budget
 - Approve advertising plan
 - Hires advertising agency
 - Referred as 'Account' in industry lingo

4.2 Major Players of the Advertising Process

- Advertising Agency
 - Responsible to develop advertising
 - They deal either with brand head, marketing head, marketing services head or in-house agencies of large advertisers
 - Play a role of liaison between the marketing department and advertising agency / other vendors involved
 - Depending on scope, in-house agencies can also act as full fledged advertising agency

4.2 Major Players of the Advertising Process

Advertisers	Advertising Agency
Hindustan Uniliver	Ogilvy & Mather + Others
Airtel	Madison World
Axis Bank	Lowe Lintas
Idea Celluler	Lowe Lintas

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4.2 Major Players of the Advertising Process

- Media
 - Channels of communication that carry the message from the advertiser to the audience.
 - Classified as Mass & Niche media
 - Nature of medium wise classified as;
 - Print
 - Broadcast
 - Out of Home
 - Digital
 - Mass media is generally cost economical.

4.2 Major Players of the Advertising Process

- Suppliers
 - Group of professional service provider that support the advertisers, ad agencies and media in creating and placing ads by providing specialized services.
 - Artists, writer, photographer, film makers
 - They exists to do as mentioned, provide fresh perspective, give outsourced services
 - Used also to achieve cost efficiency

4.2 Major Players of the Advertising Process

- Target Audience
 - First step in the entire process
 - Target audience means group of individuals meant to receive the advertisers' message
 - They consists of individuals with homogenous characteristics identified to be appropriate individuals to buy advertisers product

4.3 The Continuing Evolution of the Agency

- No longer custodian of the brand serviced.
- No longer serves as marketing & media experts.
- Till 1990s ad agencies followed the model of a full service agency – offering creative, media planning and media buying.
- Now advertisers work on slip functional specialization – creative, media.
- Eg: WPP Group forming Group M.

4.3 The Continuing Evolution of the Agency

- Specialist media house helped advertisers;
 - Negotiate better with media on rates due to bulk buying
 - Saved negotiation time
 - Small client could also gain special rate
- However, it no longer works in tandem with creative thus results in dilution of idea, message. Each has different goals to pursue.
- Promotional & digital media further changed the equation.

4.4 Types of Advertising Agencies

4.4.1 The Full Service Agency

- Agency that handles planning, creation, production and placement of advertisements.
- May provide support for promotions, market research and others as requested.
- Scope covers – advtg strategy, creativity, production, placement and evaluation.
- Many agencies provide support like CRM, digital, online, direct marketing.

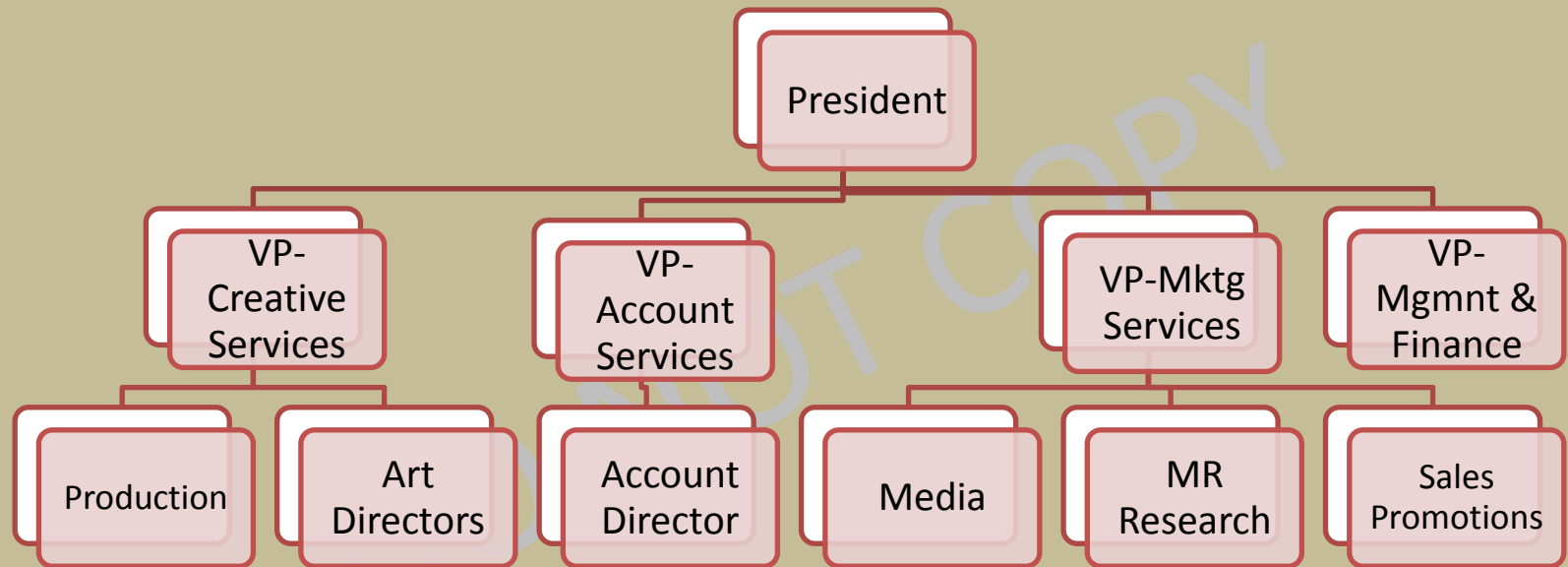
4.4 Types of Advertising Agencies

4.4.1 The Full Service Agency

- Advantage – Brand image is reinforced every time the consumer is exposed to the communication developed by a single agency.
- The Full Service agency provide functional support such as – Account Management, Creative, Media, Research and Account Planning.
- We need to study I) FSA Structure II) Functions of FSA

4.4 Types of Advertising Agencies

4.4.1 (I) Full Service Agency Structure



4.4 Types of Advertising Agencies

4.4.1 (I) Full Service Agency Structure

a) Creative Department

- Defecto 'Core' function in any agency
- They are the face of the agency
- They not only visualize picture but also forms and formats
- Headed by VP-Creative (Creative Director)
- Creative strategy, craft copy and create visuals for a campaign

4.4 Types of Advertising Agencies

4.4.1 (I) Full Service Agency Structure

b) Client (Account) Services Department

- Responsible for the inter-relationship between the agency and the client
- Account Service / Client Service Executive, acts as a channel between the agency and the clients
- Pro-activeness is needed
- Suppose to be abreast of client's business, marketing problems and ad objectives

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4.4.1 (I) Full Service Agency Structure

b) Client (Account) Services Department

- Work out proposal, co-ord approvals, budget development, media selection and releases
- They are like equal partner with the client
- Ensure client satisfaction

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4.4 Types of Advertising Agencies

4.4.1 (I) Full Service Agency Structure

c) Media Department

- Responsible for media planning and buying
- Develop media strategy, plan use of specific media, select specific medium
- Media buyers assist in negotiation and best deals, work out innovative ideas
- Media buyers work with media planners to make the best media purchase decisions.

4.4 Types of Advertising Agencies

4.4.1 (I) Full Service Agency Structure

c) Media Department

- Media planner responsible for;
 - Understand advertiser's marketing objectives
 - Develop Socio Economic Classification (SEC)
 - Develop demographic / geographic classifn.
 - Evaluate media reach
 - Evaluate reach-rate-cost per reach
 - Develop and finalize media plan

4.4 Types of Advertising Agencies

4.4.1 (I) Full Service Agency Structure

c) Media Department

- Media planner responsible for;
 - Research the intended target audience and determine what medium will be most cost effective in reach
 - Vast selection of media – Print, Broadcast, Online, Digital, Mobile

4.4 Types of Advertising Agencies

4.4.1 (I) Full Service Agency Structure

d) Management & Finance

- Office management
- Personnel management
- Financial & accounting controls
- Recoverable & payables handling

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4.4 Types of Advertising Agencies

4.4.1 (II) Functions of Full Service Agency

- a) Diagnosing the marketing and brand strategy
- b) Setting objectives and developing strategy
- c) Creating the communication
- d) Billing and Payments

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4.4 Types of Advertising Agencies

4.4.1 (II) Functions of Full Service Agency

- a) Diagnosing the marketing and brand strategy
 - Collection of information
 - Product category
 - The brand
 - Its competitors
 - Research takes the lead
 - Consumer attitude to consumer insights
 - Defining brand's core – Who? Where? What? How? Reach?

4.4 Types of Advertising Agencies

4.4.1 (II) Functions of Full Service Agency

- b) Setting objective & developing strategy
 - Formulate positioning strategy
 - Responsibility of Account Servicing team
 - Define what is to be accomplished strategically – recall, brand image, repurchase
 - Make plan how to carry out strategies
 - Collective participation of different functions of the ad. Agency is required

4.4 Types of Advertising Agencies

4.4.1 (II) Functions of Full Service Agency

c) Creating the Communication

- Decide on creative strategy
- Determines the persuasive expression of the selling strategy
- Later follows copy development, rough layouts, story boards
- Collaborate with media agency
- Adapting creative to suit media
- Media plan & release

4.4 Types of Advertising Agencies

4.4.1 (II) Functions of Full Service Agency

d) Billing and Payments

- Handling billing for the advertisements completely released
- Payment to media / vendors
- Handle receivables & payables

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4.4 Types of Advertising Agencies

4.4.2 Creative Boutiques

- Formed when copywriter & art director when come together to set up their own shop to sell the creative function at a fee.
- Some advertisers prefer to hire creative boutique.
- Allows full utilization of creative talent.
- They do not have rest of the functions under them.

4.4 Types of Advertising Agencies

4.4.3 Agency of Record

- When advertiser works with creative boutique type of set up, they also need to hire an agency to represent advertiser in media buying process.
- Not only that, if entrusted with, they can get in to consulting mode to develop effective communication strategy, ad campaign, media plan, media buying etc.
- Very large companies have AOR to co-ord with other agencies & get economies of scale.

4.4 Types of Advertising Agencies

4.4.4 Media Buying Services

- Post 1990s, trend has been noticed where large advertisers chose to have someone else to look after their media budget.
- Separate media house brings buying efficiencies and best rate.
- Large holding companies like WPP / Omnicom controlling different full service agencies have pulled out media function to form large media house like MINDSHARE.

4.4 Types of Advertising Agencies

4.4.5 In-House Agency

- Defined as “Team of advertising professionals which handles the entire process of the specific company’s advertising and promotions campaigns’.
- It’s an agency owned and operated by the advertiser himself.
- Concept originated to control the company’s advertising needs and to save on media commissions.

4.4 Types of Advertising Agencies

4.4.5 In-House Agency

- Can get creative, media buying outsourced
- It acts more like an administrative centre keeping control and objective of advertiser in focus.
- Some companies in to complex product business like engineering may prefer in-house agency with domain knowledge specialist.

4.4 Types of Advertising Agencies

4.4.6 Specialty Agency

- Most advertising agencies caters to any nature of industries.
- However, few agencies have evolved and focused on specialization – Financial ads, health care, real estate and digital.
- Such agencies are known as specialty agencies.
- Most of the time their services are utilized on a project basis.

4.5 Advertising agencies – Other Services

a) Research Services

- Research is an integral part of advertising
- During strategy development research based insights are needed
- Quality & quanti research may have to be done
- Accounts planner are responsible for the same
- Syndicated or customized, case to case basis

4.5 Advertising agencies – Other Services

a) Research Services

- Attitude
- Ad testing
- Emerging trends
- Customer behavior
- Brand positioning
- Media preference
- Product usage
- Segmentation
- Satisfaction
- Concept testing
- Product testing

4.5 Advertising agencies – Other Services

- b) Managing Integrated Brands
 - Any brand needs a custodian
 - Responsible to implement and coord a cohesive strategy across multiple media and markets
 - An ad agency inherently provides a strong link between strategy and executions
 - They have done it in the past and they only can do it better in the future

4.5 Advertising agencies – Other Services

- c) Brand Strategy In-House
 - Many advertisers feel brand strategy is a specialist function
 - All ad agencies may not be also good in brand strategy development
 - They hire communication specialist and / or strategist to support their brand growth

4.6 Agency Compensation

- Historically, agency used to receive 15% flat commission on media budget.
- It covers creative, copy writing and account service charges.
 - a) Media commissions
 - Fixed 15% or pre-agreed % of commission
 - % depends on business given
 - b) Production commissions
 - For outsourced work, agency levies fixed % of commission

4.6 Agency Compensation

c) Fee arrangements

- Commission + fixed fee
- Only fixed fees
- Cost based fee
- Retainer fee

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4.6 Agency Compensation

d) Performance Fees

- Complex but evolving method
- Performance is expected from the agency to make them responsible
- Fees will be based on predetermined performance goal mutually agreed upon
- It could be re-call score, units sold, market share
- $< 15\% = \text{Objectives} = > 15\%$

4.6 Agency Compensation

d) Performance Fees

- Agency can also dictate terms if handling challenging marketing problem – repositioning, channel expansion, commanding price premium
- Incrementally higher fees paid for better performance

Eg: If 110% of target achieved, agency may get 18% ie 20% more than 15%

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