Chapter Five

Role of Advertising Agency
5.1 The Advertising Industry

Olen segments the advertising industry into four components. Viz. advertising departments, advertising agencies, media and special service groups. Advertising departments are one of the functionaries of the marketing department of the industrial or business the marketing department of the industrial or business organization where the advertising programmes are determined and developed into advertisements. On the other hand, advertising agencies determine the advertising programme in collaboration with the industrial or business organization (the advertiser) and develop them into advertisements. Media helps the advertiser in presenting the advertisements to the target market. It may also determine the advertising programmes and develop them into advertisements. Special service groups, through their expertise in a particular area, render help to the advertiser or the agency or the media. Each component of the advertising industry plays significant role. Generally advertising departments are not designed as full service departments with responsibilities for the complete advertising programme. They only provide limited service depending on the specific and different needs of their organization or companies. Similarly large advertising agencies, generally, provide full advertising service, where as, small and medium sized advertising agencies provide limited advertising service. Special service groups and media render only special advertising services. Tremendous volume of advertisements are created by the advertising departments of retail and departmental stores and production teams in media organizations through their creative skills.
Advertising Agency – A Facilitating institution of Advertising

American Association of Advertising Agencies, Inc. defined advertising agency as follows:

An advertising agency is-

1. an independent business organization
2. composed of creative and business people
3. who develop, prepare and place advertising in advertising media;
4. for sellers seeking to find customers for their goods and services.

An agency may do things related to advertising and to help make the advertising succeed, but if the agency does not prepare and place advertising, it is not an advertising agency.

1. Independent: An advertising agency is an independent business organization independent by own and not owned by advertisers or media or suppliers-

   (a) independent so as to bring to the clients problems an outside objective point of view made more valuable by experience with other clients sales problems in other fields;

   (b) independent of the clients so as to be always an advocate of advertising (seeking to apply advertising to help clients grow and prosper);

   (c) independent of media or suppliers so as to be unbiased in serving its clients (the sellers of goods and services)
2. An advertising agency is composed of creative and business people. They are writers and artist, showmen and market analysts, media analysts and merchandising men and women. They are research people, sales people, advertising specialists of all sorts, but with all this, they are business people running an independent business, financially responsible applying their creative skills to the business of helping to make their clients' advertising succeed.

3. These people develop, prepare, and place advertising in advertising media.

Advertising agencies seek in every way they can to apply advertising to advance their clients' business. Everything that goes before and every thing that after the advertisement is preparation for the advertising or follow-up to help make it succeed. To prepare and place advertising, successful advertising for the advertiser, is the primary purpose of the advertising agency.

4. The agency does this, not for itself, but for sellers seeking to find customers for the sellers goods and services.

According to Borden and Marshall, "an advertising agency is a firm specializing in advertising which provides counsel relative to the advertising and allied operations of its clients and actually prepares, buys space and time for, and places a large part of the advertising of its clients. It may also perform other services, such as conducting marketing research, preparing sales promotional materials, counseling on marketing management or on public relations, preparing and distributing public relations messages and so on". Thus, advertising agency is an independent organization which interact with its client or advertiser as a consultant primarily to formulate advertising plans and translate them into advertising campaigns and secondly to render
specified services in marketing, on the one hand, and to media organizations, as a buyer of space and time, on the other.

5.2 EVOLUTION

THE GLOBAL SCENE

The advertising agency is the result of industrial development. Although started much earlier, the phenomenal growth of advertising agencies has taken place only after the First World War, as the advertising function gained increasing importance, thus making it necessary that groups of experts should evolve to handle this activity. So far traceable, modern advertising agencies got their start around in the mid of the seventeenth century in England when the first recognizable press advertisement appeared. Several years later, in 1666, a sizeable boost to advertising agencies was given by the London Gazette when it began publishing advertising supplements. Advertisements appeared in London Gazette’s advertising supplements, were totally different from the modern business advertisements. They have close resemblance to present day’s personal column advertisements and were mainly public notices. This approach was changed to product promotion, by Tatler, in the early of the 18th century.

So for identifiable, the first advertising agency was formed in London in 1812. It was Reynell and Son, which initially rendered limited advertising services and started providing creative advice in the mid of the 19th century, Nearly at the same time in Philadelphia (USA), in 1841, the first advertising agency is assumed to have been started by Volney B. Palmer, a son of a newspaper publisher. In the early years, the advertising agents were true agents of the newspapers’ and periodicals’ publishers. They made no effort to help the advertiser preparing copy design, a layout and providing many specialized services which are not performed by a modern agency. They started functioning as space
brokers, that is, to sell space in newspapers and periodicals for a commission. Later they became space merchants that is, to sell space to advertisers and then to buy space in newspapers and periodicals to fill orders. Thus, in legal sense, they were no longer agents, although they retained the name of agents, still later around 1865, there was another shift in their role to space wholesalers, that is, to contract for large blocks of space of newspapers and periodicals and then to sell them in portions to the companies wishing to advertise, for a profit there on retaining agentship to sell space for other publishers. The contract at first, was for a limited period and space and then after for all the space on annual basis. The agents thereby earned dual benefits, first by commission on the space purchased and secondly by selling the space to the advertisers at a higher price. This practice of agents, that is, space wholesaler ship, posed great problems to the publishers, agents and the company wishing to advertise. The advertisers started calling the agents to bid on the list of newspapers and periodicals which they themselves had prepared. The publishers were unorganized and small to handle advertising, therefore help of selling specialists, as agents, was needed. Whereas agents place orders for space in some newspapers to satisfy the advertisers' desires concurrently acting as an wholesaler of space for other newspapers. These situations led to a conflict of interests of newspapers, agents and advertisers and particularly, competition between the agents. Further later, another change took place around 1875, when a group of agents led by George P. Rowell declared a plan commonly known as Rowell's plan. Under this plan the agents would not bid on the list of publishers, prepared by the advertisers, but would buy only the space for the advertisers, while disclosing the prices paid to the publishers to the advertisers, at the lowest possible price in the newspapers on the list of the advertiser. Nearly at the same time another plan was also declared by N. W. Ayer and sons, commonly called as net-cost-plus-commission plan. Under
this plan the advertiser was asked to pay the net rate. This net rate is arrived at by subtracting all special price concessions, rebates and commissions from the card rate. The advertisers then paid a commission, for the service offered, to the agent. However, this plan was not accepted by most of the agents.

Rowell's plan was accepted by most of the agent and this evolved a system of recognition of agencies, individual publisher and media owner and by association of media owners and publishers then the agencies met certain essential requirements, like independent from the control of an advertiser or media owner" sound financial position to pay in time dues to the publishers or media owners" commission granted will not be rebated to the clients, etc. Thus, Rowell's plan followed by the practice of recognition created two categories of advertising agents, 'general agents' and another category was 'special agents' or 'media agents' who were true selling agents of a publisher or media owner. Media agents sell space in the media to the advertising agents for their clients and in few cases to the advertiser directly. They are paid on a commission basis by the media owners they represent. By the early 1900's the Rowell's plan and recognition began to set the pattern for the advertising industry. The granting of a commission to the agent established firmly, as agents changed themselves from space seller to space buyers or from publishers' selling representatives' to advertisers' buying representatives', of course, this transition had not taken place all of sudden but was a gradual evolution. By the time, the publishers or media owners had realized the importance and necessity of using advertising agencies, as they have effectively contributed in expanding the use of advertising, making advertising more resultful and reducing the publishers' costs in the production of advertisements. It was only by the beginning of this century that the agency started to prepare advertisements and deliver them through the advertisement media. Lord
& Thomas was probably the first agency in the U.S.A. with a reputation for creative work in advertising. Occasional attacks on the commission method of payments, though short lived, led to several research studies (namely, 'Advertising Agency Compensation' by James. W. Young, University of Chicago Press in 1933; 'An Analysis of a Report called Advertising Agency Compensation' by A.E. Haase, Association of National Advertisers, Inc. in 1933; Analysis and criticism of a study entitled 'Advertising Agency Compensation in Theory, Law and Practice' American Association of Advertising Agencies in 1935 and 'Advertising Agency Services' 'Working Relationships', 'Compensation Method' by Albert. W. Frey and Kenneth R. Davis, Association of National Advertisers, New York in 1958) were made and published. These studies further established the commission method and suggested not to upset the status quo. During this time there was a spectacular growth of advertising agencies in the United States in number and in the range and scope of the services offered. On the contrary, the British Advertising Agencies showed a retrograding trend in the period between the two World Wars, for many of the agents joined, either Ministry of Information or propaganda departments of other ministries. Immediately after the World War II, the British agents followed their American counterparts and larger agencies with television departments were established to meet the challenge posed by advent of commercial television.

1980's is thought of a golden age for advertisement. During the past years the size of advertising agencies and activities and services in the era of marketing have increased phenomenally. Tables in the following pages show the pattern of worldwide growth of advertising agencies.

S. Shiva Ramu cited some of the achievements in the area of marketing attributable for increase in activities and services offered by advertising agencies. They are as follows:
1. Health Service Marketing;

2. Financial Service Marketing: In this the products were designed to suit selected target groups and promote them;

3. Change in the communication technology where they use modern printing, computer and satellite technology so that national newspapers can be delivered anywhere in the US on the same day;

4. There was an increase in the marketing packaged environments such as Disney World, Shopping Malls etc.;

5. There was an increase use of computers in decision support system;

6. There was also change in the physical distribution system which reduced the time and cost in delivery system;

7. There was an increase in access to the consumers of data on stock market details on TV screen. Consumers were also able to shop their demand through computer linked up with super market;

8. There was a growth of off-price retailing where there was a new development of purchasing in bulk of surplus products; seconds and rejects which were then made available when there was a demand;

9. Professionalism was standardized and the uniformity of services were provided in specialized areas; and

10. Media changes, Due to socio-economic and technological changes, there is a move towards segmented audiences, this lead to changes in media options with the changes in the media, one can classify the advertising revolutions into three phases.
First Phase: The print revolution (Between 1935 & 1970). This phase was dominated by creative giants in advertising. During this phase, several developments in formula thinking and testing increased. The copy testing created dampening effect on creativity. In this creative age, normally three people are identified: Leo Burnett – Who looked for the drama in the product and always claimed in his advertisement the best on the intimate knowledge of the product; David Ogilvy – Who believed in the Big idea; Bernbach – Who introduced the provocative ideas out of the product.

Second Phase: The film revolution (between 1970 – 1990). This period was of brilliant film directors. This phase is characterized by the use of human emotions like humour, fiction, fear etc. in advertisements. However, increasing impact of new rules and regulations and costs restricted advertisements length and forced to concentrate on product itself.

Third Phase: The client revolution (1980 onwards) This phase refers to change in concept of promotion and advertising from short –term investment to long-term investment, from uniform marketing to local marketing and from mass media advertising to tailored advertising to individual customers.

This then is the essence of the way in which the modern advertising agency has developed.

THE INDIAN SCENE

The history of advertising Agencies in India can recordedly be traced back to early 1900s, although there was a small beginning of advertising in 1780s. But it was only in 1905, the first real advertising agency was established. In the early years of 20th century British firms in India started using advertising for promoting their products, initially
imported and later manufactured in India. These firms mainly used more or less the same advertisements as used in Britain, but the results were not good, consequently they allowed and provided opportunities to their Indian staff to get training in Britain & USA and the so trained staff established their own agencies in due course of time. The first Indian advertising agency, B. Dattaram & Co. started advertising business in 1905. The second agency was Central publicity Service, established in 1925 in Calcutta. Subsequently, branches of Lintas, New York; J. Walter & Co, New York; and Ogilvy and Mather, New York were started, the first one was OBM in 1928, J Thomson in 1929 and Lintas in 1939.

Initially, the Indian advertising agencies were mainly engaged in releasing the advertisements were prepared by the client himself. Early advertisements were no more than art work and it was the artist who commanded a supreme position in the industry. Immediately after the attainment of Independence, the Government of India felt it necessary to make its policy clear on Industrialisation of the country. Accordingly a resolution on Industrial Policy was announced on 6th April 1948 (Improvements were subsequently made by the Industrial Policy Resolution of 1956, Industrial Licensing Policy of 1970, Industrial Policy Statement of 1980, Industrial Policy Statement of 1991). The Five Year Plans were also launched. These steps taken by the government resulted in rapid economic development and there by significantly increasing national income, per-capita income, employment potential etc. thus, giving a big boost to advertising and a significant role to play in socio-economic development of the country. Some of the most important changes in the Indian advertising Industry can be presented in list form.

(1) Upto 1957-Most of the advertising was in the print media on Oct. 2, 1957 Vividh Bharti was launched. All India Radio started commercial spots on Vividh Bharti to counter
balance the effect of the popular radio commercial transmitted from Radio Ceylon to the Indian market.

(2) 1971 – Predominant role played by Rediffusion in Lok Sabha elections.

(3) 1983 - Till this time most of audio-visual advertisements were in cinemas. It is believed that first film was prepared by Hta for chevorlet car of General Motors, in 1931 depicting it chasing the Deccan Queen, thenafter, in 1942 Lintas prepared 2.5 minutes film show on Dalda. In TV real break came when on 20 July, 1983 the ministry of Information and Broadcasting Govt. of India announced a special plan to set up 13 High power transmitters (HPTs) and 112 Low power transmitters (LPTs) at a cost of Rs. 68 crore.

(a) Media changes : The media scene has undergone rapid change in India in recent Years. The print media has continued to expand and greater growth has occurred in the Indian language press. Commercial Broadcasting Services of the All India Radio have been considerably strengthened. Advertising on television has also gathered significant momentum in recent years. (For full details please see media science in India)

(b) Changes in Legislations and Government Policies : According to S. V. Nathan, in the 1980s there was a slant in the governments' attitude towards liberalization of licensing policies. This led to increased competition and consequently more
aggressive marketing and advertising programmes. The Government announced following changes.

1. Amendments in the Monopolies and Restrictive Trade Practices Act, 1969 making significant changes in 1982, 1984, 1985 and 1991. Important among them are the amendment of 1985, raising the asset threshold of undertakings from Rs. 20 crores to Rs. 100 crores for application of provisions of the MRTP Act, relating to prevention of concentration of economic power. The Industrial Policy statement of July 24, 1991 repealed the provisions of the Act pertaining to concentration of economic power, except the provisions empowering the government to defuse the concentration of economic power to the common detriment. These amendments were aimed at nullifying the negative effect of the earlier provisions on the growth and competition.

2. In June 1988, with a view to encourage investment in the backward areas, projects of non MRTP/nonFERA companies have been exempted from Industrial licensing, if the investment in fixed assets does not exceed Rs. 50 crore as against Rs. 15 crore in non-backward areas, subject to certain conditions.

3. The new Industrial policy has abolished Industrial Licensing irrespective of the levels of investment for all industries except 15 specified industries which will continue to be subject to compulsory licensing for reasons related to security, strategic or environmental concerns and certain items of luxury consumption that have a high proportion of imported inputs.

4. Major changes in the trade policy were announced by the Central Government on 4th July 1991 and 13th July 1991 to give thrust to the new direction of the trade policy by reducing import duties and liberalizing imports. Prior to 1985 Government used to announce
Export-Import Policies on yearly basis. On March 31, 1992 government announced the Export-Import Policy 1992-1997, coinciding with the 8th plan period reinforcing the directions set by the Industrial Policy Statement 1991 towards Globalisation or Internationalisation of Industries. It substantially eliminates licensing restrictions and other regulatory and discretionary controls. All goods except those coming under the negative list may be freely imported and exported.

5. Scheme of Broadbanding of industries, that is, the description of items of manufacture in the industrial license would be in terms of broad generic category instead of rigidly defined specific products.

6. Automatic re-endorsement, higher capacity for production and additional investment, for all undertakings including MRTP/FERA companies, upto 10 per cent on existing book value is allowed. These changes resulted in rapid growth of Indian industries.

According to S. Shiva Ramu, there are four trends in the growth of advertising agencies, namely, niche marketing, in-house agencies, Break away from established companies, and Diversification.

1. **Niche Marketing**: With the growth and the opening of Indian economy in 1980s, there is a trend of niche marketing, particularly in financial advertising. The billing for Financial marketing was Rs. 5 crores in 1983 and it increased to Rs. 60 crores b 1986. There were hardly two major public issue promotion by Soubhagya and Pressman. Subsequently several new companies started promoting public issue advertisements in India. Many of the established companies were hesitant to enter this area. There was also the growth in other below-the-line marketing promotions and market research agencies".
2. **In-house Agencies**: "The major in-house company earlier was identified Lintas with Hindustan Lever. Subsequently it took up other clients. Similarly Reliance Industries started Mudra Communication. Birlas started Advertising and Sales Promotion (ASP) and so on".

3. **Break-away from Established Companies**: "Though the break away from established advertising agencies was small during 1960's and 1970's. It became major phenomenon later on. For instance, Ulka was started in 1961 after breaking from, OBM in 1973, R.K. Swamy after breaking from HTA started SAA. But there has been a spurt of splinter groups in 1980's. Several chief executives started their own agencies breaking away from the established companies. The major contribution in this respect is from Clarion agency. There were almost six break away from this agency. Two of them have achieved nearly equal billing of parent company. They are Tara Sinha Associates and Trikaya. Another aspect in this break away is that most of them have taken away one of the major clients form the original agency. For example TSA took away Nestle account from clarion. Mega Took away Indodon account. Similar breakaway is visible in other agencies. Goldwire was broken from Lintas".

4. **Diversification**: "During 1980's there was also a trend towards diversification by major agencies in India. They are either starting small subsidiaries to take care of small clients or sometimes subsidiaries/divisions are created to offer marketing services. HTA was the first one to start Marketing Research outfit. This was followed by Lintas and Mudra. In video films MAAC, Mudra and R.K.Swamy hav started subsidiary units. The other marketing services like direct marketing, sales promotion, PR and financial services were introduced. Some of the major units are starting
their own divisions or subsidiary units to take care of this. The trend in Indian ad agency is to start their own subsidiary or division to cater to other marketing services. This is in contrast to international trend of diversification through acquisition and mergers. This trend has just been started by Mudra, by acquiring Vision ad agency in 1990".

5.3 ORGANISATION

The internal organization of an ad agency varies greatly, and largely depends on its size. There are variations and adaptations in the organization structure of the agencies to suit their individuality. However broadly there are two basic type of organizations: THE GROUP TYPE, and THE DEPARTMENT TYPE. The type of the agency organization is determined by the size of the agency, the functions performed by it, and the personnel involved in it.

GROUP TYPE OF ORGANISATION

There is a group of individuals servicing the client. The group comprises of an account executive, a copywriter, and a layout artist; and it contacts clients and does creative work for them. It uses other central units like media research, mechanical production and accounting as it needs them. The basic concept is to make a team of trained individuals for specialized work, and then let this team work together on some problem. Some groups serve more than one or two clients. This type of an organisatin is more suitable for large ad agencies. This is also known as the matrix type of organisation.

DEPARTMENT TYPE OF ORGANISATION

This is based on the principle of a separate department for each major advertising function. Each department is headed by a specialist in that field
5.4 FUNCTIONS OF ADVERTISING AGENCY

An advertising agency performs following basic functions.

(a) To obtain the client;

(b) To prepare an advertising plan or program and discuss with the clients and submit it for the clients' approval;

(c) To develop a copy, illustrations and layout in accordance with the clients' wish and approval

(d) To transform copy, illustrations and layout into an advertisement;

(e) To hire the media suitable to the advertisement;

(f) To supervise, schedule and control each ad.;

(g) To check on the appearance of advertisements in media, to pay media bills, to bill clients and because receive the payments;

(h) To ensure implementation and observance of contracts, standards of advertising and other legal provisions;

(i) To build and maintain goodwill with various sections of the society; and

(j) To conduct researches in order to make stronger speculative presentations along with the findings of the researches to the clients.

Advertising agencies are classified as full-service advertising agencies and limited-service advertising agencies on the basis of services
provided by the agency. The American Association of Advertising Agencies this describes advertising agency services, in ‘the Structure of the Advertising Agency Business’ as thus, “Agency service, consists of interpreting to the public, or to the part of it which it is desired to reach, the advantages of a product or service”. This interpretation is based upon:

1. A study of the client’s product or service in order to determine the advantages and disadvantages inherent in the product itself, and in its relation to competition.

2. An analysis of the present and potential market for which the product or service is adapted:
   a) As to location
   b) As to extent of possible sale
   c) As to season
   d) As to trade and economic conditions
   e) As to nature and amount of competition

3. A knowledge of the factors of distribution and sales and their methods of operation.

4. A knowledge of all the available media and means which can profitably be used to carry the interpretation of the product or service to consumer, wholesaler, dealer, contractor, or other factor. This knowledge covers:
   a) Character
   b) Influence
   c) Circulation
Quantity

Quality

Location

d) Physical requirements

e) Costs

Acting on the study, analysis and knowledge as explained in the preceding paragraphs, recommendations are made and the following procedure ensures;

5. Formulation of a definite plan and presentation of this plan to the client.

6. Execution of this plan;

a) Writing, designing, illustration of advertisements, or other appropriate forms of the message.

b) Contracting for the space or other means of advertising.

c) The proper incorporation of the message in mechanical form and forwarding it with proper instruction for the fulfillment of the contract.

d) Checking and verifying of insertions, display or other means used.

e) The auditing, billing and paying for the service, space and preparation.

7. Cooperation with the client's sales work, to insure the greatest effect from advertising.
These are the elements of agency service, whether all of the above functions are shared by a few persons or each function is carried on separately by a specialized department. Into this pattern fit account executives who contact the client, art directors, copy writers, space and time buyers, research workers, mechanical production and radio production people and so on.

ADDITIONAL AGENCY SERVICES

In addition to advertising service there is a willingness among many agencies today to assist the client with his other dynamic activities of distribution. They do special work for the manufacturer in such fields as package designing, sales research, sales training, preparation of sales and service literature, designing of merchandising displays, public relations and publicity. But always the agency must justify such work by doing it more satisfactorily then can either the manufacturer himself or a competing expert.

The list of services included in the above said definition is not exhaustive many more services can be added to this list. In 1918, the American Association of Advertising Agencies set forth seven service standards, that still hold true today, for full service advertising agency. They are:

1. Study the product;

2. Study the present and potential market;

3. Understand the factors of production;

4. Understand the media;

5. Formulation of advertising plan;

6. Execution of plan; and
7. Cooperate with other marketing units.

Thus, full-service agency provides a full spectrum of services. John Monsarrat in a writing for the American Association of Advertising Agencies advocate the use of full service advertising agencies because of explicit advantages like-centralization of responsibility and accountability, simplified co-ordination and administration of a client's total advertising programme, greater objectivity, sales oriented creative work synergistic experience, a stronger pool of talent, professional strength in marketing area, may be less expensive, simplifies corrective changes and a better working environment.

An advertising agency employs four different types of personnel. They are

(a) Administrative group;

(b) Creative group, that is, personnel concerned with production, like copy writers, artists, typographers, engravers etc.;

(c) Marketing services group, that is, personnel concerned with media planning & purchases and market research.

(d) Client services group. That is, personnel responsible for agency-client relationship including Account Executive or Supervisor.

**REASONS FOR USING ADVERTISING AGENCIES**:  
Even when, companies with well equipped advertising departments use advertising agencies for the following reasons:
1. Advertising agencies have specialized knowledge and experience of developing and implementing an advertising plan, in particular, and marketing programme in general;

2. They provide biased suggestions and viewpoints on advertising and other related marketing problems, as they are independent from the advertiser.

3. Costs in carrying out advertising activities for an advertiser is relatively low, as costs of its staff are distributed over many accounts and it would be rather, impossibly costlier for an advertiser to employ specialists in the various areas of preparation and implementation of advertising plan and strategies.

4. Advertising Agency provides greater accountability and responsibility, objectivity, sales oriented creative work and better working environment for implementing the advertiser’s total advertising programme. Thus the agency-client relations are liable to easy termination. On the contrary, it is very difficult to get rid of an ineffective advertising department.

5. Advertising agency works for advertises without charging any amount from them rather the agency receives its remuneration from media as fixed percentage of media billings. Thus agency provides fee services to the advertiser.

FUNCTIONS OF AN ADVERTISING AGENCY

There are a number of reasons for having an advertising agency, which has resulted in the growth of the advertising profession and business.

First, an advertising agency will be in a position to take an objective view of the advertiser’s plans and proposals and thus venture to put
forward its opinions and comments. Second, the type of training and
talent that is required for conceiving and executing advertising is likely
to be available with an advertising agency. It may not be worthwhile for
an advertiser to have on its permanent staff the variety of skills required
to produce advertisements. Moreover, the development of advertising
campaigns is a result of team work. In that respect too, an agency
provides opportunity as well as flexibility for various combinations of
agency personnel from different departments to form teams to work for
specific accounts and clients.

Third, an advertising agency will have regular contacts with various
support systems required for the production of advertising material. A
major advantage of the agency is its regular dealing with the media and
the expertise it develops in the process. This can be used to the
advantage of the clients.

Another important function which an advertising agency can perform is
specially relevant to those advertisers who may not have the necessary
expertise in the use of advertising. Advertising-agency skills can also be
useful in the preparation of campaigns where the risks involved are
high, such as in the introduction of new products. The agency
experience, gathered from a number of clients, for achieving a variety of
objectives in different situations, can be of great value in such cases.

A potential advertiser will need to formulate and analyse his marketing
plans in order to examine the potential contribution of advertising from
amongst the relevant marketing inputs. In case of doubt concerning the
decision of whether to advertise or not, an agency may be asked to
render advice. If the decision is in favour of advertising, the services of
an advertising agency will be required.
The overall responsibility of formulating marketing plans and implementing them rests with the advertiser to whom resulting gains or losses accrue. The advertising agency provides its services in giving the final form to the communication strategy and in the dissemination of the intended message through the media. The acceptance of the agency as an integral partner in this process is a basic cornerstone of the relationship between the advertiser and its using more than one agency. The dividing line in the relationship between the advertiser and its using more than one agency. The dividing line in the relationship, as suggested by Hanan, is the corresponding risk for its business, i.e. marketing. The advertising agency is concerned mainly with the effective use of creative and other relevant skills.

There is universal emphasis on the long-term nature of the relationship between an advertiser and an agency. A survey of the hundred largest national advertisers in the USA showed that 52 of them had at least one advertising-agency relationship extending to more than 25 years. Thirty seven agencies had worked with these 52 advertisers for over 25 years.

The client-agency relationship has been compared with the state of being wedded to each other and the longer it lasts the more fruitful and mutually beneficial it may turn out to be. Morgan puts the onus of sustaining an enduring relationship on the client, who in his judgement is more likely to be the unstable member of the partnership. The agency would not normally break the relationship unless it wants to enter into a contract with a new client in preference to an existing one.

The sustenance of a relationship depends to a large extent on the appropriate choice of an agency and, correspondingly, on a high degree of acceptability of the client by the agency. Once such suitability has been established through the selection process. Initial adjustment,
mutual respect and responsiveness will be vitally important in cementing the relationship. It will be, for instance, necessary to involve the agency fully in developing advertising plans. This would require clients to have a high degree of clarity about their business goals and marketing strategy. Estimates of sales, market share, profits and similar entities have to be developed by the advertiser in the first place. The corresponding resources and risk also need to be evaluated. A major function of advertising is to help in achieving the goals, minimize risks, on the one hand, and increase probability of gains on the other. The agency would make its assessment of the market segment and target audience and provide an estimate of feasibility of the achievement of marketing objectives to its client. Where ever necessary, inputs from research may be brought in. The advertiser and the agency have to share confidences and liabilities in arriving at a decision regarding the likely success of an advertising plan. It may be necessary to have contingency plans ready in certain situations. Here, too, the agency has to put forth its considered view to the client and have ready plans which can be used as and when required.

SYSTEMS AND PROCEDURES

It is, obviously, necessary to have systems and procedures for the various stages in the development of advertising strategy and plans, preparation of advertising material and its placement in the media, or making arrangements for its distribution. This will ensure smooth operations and avoid delays and disputes. At the same time, rigidity should be avoided. In order to get full value out of its agency, the advertiser has to encourage an open approach.

Obermeyer pleads for the freedom of advertising agency personnel to talk to anyone in the advertiser's organization they may consider necessary. They should also be allowed to make suggestions and
recommendations regarding products, packaging and other relevant features. Such suggestions may prove valuable in achieving proper advertising positioning for the advertiser’s product and brand. The agency must also have an inbuilt modicum of freedom to experiment. It will, otherwise, not be in a position to innovate, especially when market environment and patterns of buyer behaviour change. In the process of trying out new ideas it may make mistakes that have to be allowed for by the client. Finally, the agency must be given a fair opportunity to present its case before the client, particularly when it comes to expounding a radical idea. The client has the final say in the matter, but if he is unappreciative the agency must have a change to make him see its point of view.

CONSIDERATIONS IN AGENCY SELECTION

It will be useful to elaborate on the guidelines which a new advertiser may adopt while selecting an advertising agency for the first time. Similar considerations will be relevant when selecting a second agency, say for handling another account or changing an agency. Those advertisers who have already used an advertising agency’s services will be guided by their experience to some extent.

The first consideration for a potential advertiser, while selecting an agency, is the range of services offered. A typical advertising agency starts with the advertising brief given by the client, which is taken through the stages of development of detailed plans, creating campaigns, giving the final form after processing through various stages involving artwork, photography and so forth, and arranging for placement in the various media according to the agreed schedule. An agency would sub-contract some production jobs such as block making, printing and, in some cases, photography. However, the overall responsibility of the final output would rest with the agency.
Assistance in preparing or reformulating marketing plans. This may be of value to those clients who are not conversant with modern management approaches.

**Marketing and Advertising Research.** There are research companies specializing in marketing research, advertising research, or both. Some advertising agencies may have a full fledged research department which can undertake specified studies, the cost of which will normally be borne by the advertiser. Some agencies may not incorporate a research department. They may however, have a research team which may undertake limited research as requested by the agency teams working on different accounts.

**Sales Promotion.** Some agencies may have special skills or experience in sales-promotion schemes directed at the target-market segment.

**Merchandising.** While point-of-purchase display material and other aids for attracting buyer attention may usually be included in overall advertising and sales promotion programmes, merchandising is a special area. Apart from that, merchandising may be used exclusively or in a comprehensive way for certain clients or product groups as the dominant component of advertising programme.

**Public Relations.** There is a certain area of overlap between advertising and public relations. Many organizational promotion-and-liaison activities are handled by the Public Relations Department of the advertiser. Institutional advertising, in such cases, may form a part of the responsibility of the PR Department. Some agencies may offer services for the entire publicity for a company.
Specialised Services

Some advertising agencies may offer specialized services, for instance for television or radio advertising or for technical or industrial advertising. It is possible that certain agencies may have some specialized services as part of their overall service package. A few may offer the specialized services exclusively.

Products/Services Advertised. Sometimes, advertisers may be guided by the nature of the accounts handled by an agency in terms of product categories, whether consumer, industrial or engineering and various types of services. The agency’s experience of handling products/services which the advertiser would like to be advertised may be considered useful. A warning must, however, be given against stereotyping. An agency may, in act, do an excellent job in handling a product range entirely new to it, through extra interest and innovation.

The major advertising decisions the formulation of objectives and strategies adopted to achieve these objectives. Strategies of ad-agencies are designed in such a way that it has:

1. Objectives and goals;

2. Courses of actions; and

3. Deployment or allocation of human or non human resources

To achieve these objectives and to ensure success and growth advertising agencies must develop strategies so as to fit into socio-economic objectives of the society, agency’s objectives and aims, capabilities of human and non-human resources and future opportunities and challenges posed by the dynamic environment. Strategies bridge the gap between the objectives and action plans. Generally advertising agencies use more than one strategies
simultaneously. Strategies are designed keeping in view the customers, customers need, and environmental variables, particularly, competition. Thus, strategy is an action oriented chosen way in which an agency is going to achieve its objectives through and by its executives and operatives.

Objectives and strategies are usually decided by the top management and executives responding to our questionnaire, barring a few, showed their inability to respond.

Most of the agencies do not have written objectives and strategies. Large and established agencies have formal and defined objective. “To survive in the most competitive environment” is predominantly, their objective. It is also noticed that agencies usually have multiple objectives, and are changed from time to time, from product to product & from client to client.

Profit maximization and growth are the two most quoted objectives of Indian advertising agencies. However, agencies have other objectives also. They are listed below:

(a) “maintenance of share in the market”;

(b) “Clients satisfaction”;

(c) “Desired level of customer satisfaction”;

(d) “Bright image building”;

(e) “Technological innovation”;

(f) “To meet the competition efficiently and effectively”;

(g) “Survival of the fittest”;
(h) “For prosperity Sky is the limit”;

(i) “To maintain leadership in the advertising industry”;

(j) “To build highest degree of clients confidence”;

(k) “To promote harmonious agency-client relations”;

(l) “To change attitudinal set for, the brand of client and to achieve the desired impact through advertising messages”;

(m) “To eliminate waste in advertising by objectively analyzing the media available for promoting products and services”;

(n) “To promote the product’s and service’s brand image”;

(o) “To develop effective advertising campaigns through the use of merchandising activities market research and publicity”;

(p) “Reaching effectively the target group through intensification of advertising”;

(q) “To stimulate the imagination of prospective customers to own the product”;

(r) “To correct false impressions which inhibits sales through unique selling proposition”; and

(s) “We are the premier financial advertising agency in India and we wish to continue the same status”.
BASIC PRINCIPLES OF CLIENT-AGENCY RELATIONSHIP (CAR)

These principles are:

(i) The agency avoids advertising a close substitute competing product. The client too, avoids engaging the services of another competing agency;

(ii) The agency receives the green signal from the client for all the expenses incurred on his advertising;

(iii) The agency keeps the media commission for itself, and the client undertakes, to foot the bill promptly;

(iv) If the media grants any cash discount, it is passed on to the client;

(v) The agency is not taken to task for media lapses in terms of scheduling, positioning, etc.

BASIC PRINCIPLES OF AGENCY-MEDIA RELATIONSHIP

These principles are:

(i) The agency alone is responsible for payment to the media;

(ii) The agency does not allow any cut from the commission received from the media to go to the client;

(iii) The media do not discriminate amongst the agencies dealt with, and follow a uniform policy for all the agencies;

(iv) The media do not alter the advertising material without the prior consent of the agency.
The method of paying the agency has been a subject of much discussion nowadays at almost all the meetings of advertisement agency associations and advertisement clubs. There are, basically, three methods in practice. They are:

(a) **Commission System**: This is the most common and the oldest system of remuneration. The agency is paid a fixed commission by the media on the advertising bill for the advertisement space bought by the agency. This fixed rate of commission is 15 per cent in the USA as well as in India. Though the rate varies from country to country, the rate of 15 per cent is almost universal. For example, an agency places a full-page advertisement in a magazine, which costs, say, Rs. 10,000/-. After the advertisement has run, the magazine (the medium) will bill the agency for Rs. 10,000/- less 15 per cent. This means that the agency will pay to the medium Rs. 8,500/-. The agency, in turn, will bill the advertiser for Rs. 10,000/- Thus, Rs. 1,500/- will go towards the efforts made and the services rendered by the agency in the preparation of the advertisement and its delivery in the medium. Indian and Eastern Newspaper Society (IENS) accreditation earns the agencies 15% commission and 60 days of credit from the media. Non-accredited agencies have to pay the media in advance and get 10% commission which in real terms translates to a miserable 5 p.c. The popular criticism of this method is that the agency is always tempted to recommend for several deliveries through expensive media in order to draw a larger remuneration.

(b) **Fee System**: The system came into effect following a controversy between an advertiser and an agency. The former
argued that 15 per cent commission was too high a rate, whereas
the agency took the stand that it was unremunerative for the
many services rendered to the client. The fee system is used in
TV advertising, when once the commercial is created, it may be
used over a long time. A flat fee is paid to the agency for the
specialized services performed by it.

(c) The third type of compensation consists of service charges.
These are added to the cost of materials, and services bought by
the agency for the client in artwork, photography, typography,
plates, etc. Normally, it is cost plus 15 per cent.

In practice, one of the above systems of compensation, or a
combination of the fee-and-media commission plan, or a method by
which commissions granted by the media are credited against
professional fees, is used.

Industrial advertising, involving the preparation of catalogues and
sales materials, and retail advertising, point-of-purchase materials for
advertising and direct-mail prices do not usually involve a
commission. Here, the fee basis of compensation is mostly
employed. When a new product advertising is involved, the agencies
are remunerated on a special fee basis.

The agency-advertiser relationship is like the physician-patient or the
lawyer-client relationship; the patient pays the physician’s fee,
whether he gets relief or not. However, the quality of the physician’s
services will be ultimately reflected in the number of patients visiting
him, or the volume of business he has. But there is no direct link
between the fee paid and the effectiveness of medical treatment to
an individual patient. As a patient, he is entitled to get an effective
cure in return for the fee he has paid. The lawyer, too, takes the fee,
irrespective of the judgement in the case. However, he faithfully
argues the case for his client. This raises the question of the efficacy of the remuneration method of advertising. The ideal and desirable method must relate compensation to its effectiveness in some form or the other. Only such a method will have a greater acceptability among the advertisers. Not only this, such compensation method will encourage the growth of a greater measure of professionalisation in advertising. This, however, looks simple but difficult to implement, because the necessary condition for the success of any such compensation plan is to find methods for measuring advertising effectiveness. Once this has been achieved, it would not be difficult to correlate it with the compensation payable to the agency. We shall discuss the method of evaluating advertising effectiveness in a separate chapter later on. The possible future methods of compensation, using suitable scales for measuring the effectiveness of advertisement, can be devised. However, till other alternative methods are available, we have to continue with the existing methods.

5.7 FOREIGN TIE-UPS

Agencies now have a new role—they are brand stewards rather than just account managers or creatives or media planners. Foreign tie-ups help the agencies in their new role as brand builders. Brands are built around their inherent feel and core values, e.g., Colgate's fresh breath energy'. The functional attributes of the tooth paste are side and tracked. Tata Tea's Asli Tazgi campaign stresses on vitality and freshness, rather than strength and flavour. Tie-ups help build the brand values.

Commonality of work culture emerges as the main determinant of equity participation. However this does not mean that if there is 10
p.c. stake of a foreign agency, the mindest would be integrated 10 p.c.. The trend is towards greater foreign equity.

**AD AGENCY COLLABORATIONS**

Collaborations with foreign associates or copying up is the buzzword today.

**Agencies with Equity Participation**

<table>
<thead>
<tr>
<th>Indian Agency</th>
<th>Foreign Agency</th>
<th>Equity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lintas</td>
<td>Lintas Worldwide</td>
<td>40</td>
</tr>
<tr>
<td>O &amp; M</td>
<td>O &amp; M group</td>
<td>40</td>
</tr>
<tr>
<td>Contract</td>
<td>J W Thompson</td>
<td>40</td>
</tr>
<tr>
<td>Trikaya Grey</td>
<td>Grey</td>
<td>20</td>
</tr>
<tr>
<td>R.K. Swamy</td>
<td>BBDO</td>
<td>20</td>
</tr>
<tr>
<td>Tara Sinha</td>
<td>McCann-Erickson</td>
<td>40</td>
</tr>
<tr>
<td>Associates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mudra</td>
<td>NDDB</td>
<td>10</td>
</tr>
<tr>
<td>Needham</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rediffusion</td>
<td>DENSTU, Young and Rubican (DY &amp; R)</td>
<td>40</td>
</tr>
<tr>
<td>Speer</td>
<td>TBWA</td>
<td>10</td>
</tr>
<tr>
<td>MRA</td>
<td>Bozell Worldwide</td>
<td>20</td>
</tr>
</tbody>
</table>
Proposed Financial Partnerships

<table>
<thead>
<tr>
<th>Chaitra</th>
<th>Leo</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Burnett</td>
</tr>
<tr>
<td>Sista's</td>
<td>Burnett &amp; Saatchi</td>
</tr>
<tr>
<td>Enterprise</td>
<td>D'Arcy, Massius, Benton an Bowels</td>
</tr>
</tbody>
</table>

ADVANTAGES

Mutual benefits. International brands are moving into Indian markets. Foreign agencies should do well to register their presence.

International exposure benefits Indian agencies. Data exchange is mutually beneficial.

Greater exchange of resource persons in near future.

Equity tie-ups is the biggest advantage. The world over 100 clients account for 75 p.c. of ad expenditure. Agencies handling these 100 accounts fall into specific groups (e.g., Unilever, Colgate Palmolive or P & G. Kellogs uses Leo Burnett and JWT and Coke uses McCann Erickson and Lintas. An agency which is in one of these camps will not get accounts from another multinational. It is obvious that at least a third of ad expenditure will be generated by multinationals.
"The competition would be keen and intense in the advertising business in India in the coming years, but it need not pose a problem of survival if Indian advertising agencies show enough resilience to exploit emerging opportunities." This view was expressed at the All-India Advertising Convention held in Madras in April 1982. The future of the advertising agency seems to be bright. Opportunity awaits the agency to broaden its scope of services in spite of the various emerging challenges on the advertising scene. These challenges pertain to market, media, motivations or putting messages across to the audience.

The biggest challenge to Indian advertising professionals today is the negative public image which this so-called image building industry of advertising has projected of itself. False and misleading advertising does often taken consumers for a ride. This was highlighted by the Sachar Committee in its report. The Second Press Commission has also adversely commented on the advertising sector. It has suggested the imposition of the news-to-ad ratio and made several other sweeping recommendations which, if implemented, will create many problems for the agencies. Voices have been raised to clamp ad censorship or to enact punitive legislation against misleading advertisements, false presentation, unfair sales promotion contests, etc. The other disturbing aspect is the steep rise in the rates of TV commercials, radio and press ads. Now comes the conflict between generic promotion and brand advertising. Today, there is a demand for greater accountability to the client for the money spent on advertising.

With mushroom growth of agencies, several unethical practices to wean away clients raise their head. In-house agencies are a
problem. Even then, the 70s were years of turmoil, the 80s an era of consolidation, the 90s is going to be a decade of big agencies. Many medium size agencies will become big in due course. Advertisers will be after a total communication package, advertising being only one part of it.

Image of the Image Makers: MARG Survey on Ad Agencies

MARG conducted a survey on ad agencies in Dec. 1989 with an aim to understand client-agency relationships. A structured questionnaire was administered to a select 102 companies. Besides, qualitative data was obtained by depth interview and projective techniques.

The survey revealed four interesting patterns of client-agency relationships.

(a) Parent-child relationship: Here the agency holds the hand of the client, and guides him at every stage.

(b) Equal partnership relationship: Both the agency and the client are fairly demanding of each other. They sort out their problems jointly.

(c) Unequal partnership relationship: The client feels no need to understand the agency. It is really the agency which is expected to understand the client.

(d) Deliver-and-out relationship: The client orders when there is a need. The client keeps relationship with several agencies. The agency supplies the services and closes the deal.

Findings of the Survey

1. The more competitive the market, the stronger is the position of the agency. In 47 p.c. of the relationships
examined, the agency was rarely or never called upon to participate in marketing planning meetings.

2. The agencies, contrary to popular belief, fare poorly with respect of generation of new ideas. In almost 3/4 the of the cases examine, the clients said agencies did not provide the new ideas.

3. In less than 10 p.c. of the cases does an agency have a right to chalk out communication strategy independently. Neither do they have any say in budgeting or media planning.

4. In half the cases the agency always acted as supplier of copy with visuals and executed the given brief and provided alternative execution to make client choice easy.

To sum up, clients do not expect their agency to operate as an extension of their marketing arm.

5. About 40 p.c. companies did change their ad agencies in the last two years.

6. Clients tend to choose multiple agencies.

7. Clients put agencies into the following five categories;

(i) Large well-established agencies : They have mostly international tie-ups. They have a glorious history. They offer wide-range of services at different locations. Their creative effort may not fetch awards, but they have the sales potential.

(ii) Super-department stores : They offer widest range of services and are suited to big spenders, rather than the
smaller ones. The clients prefer the safety offered by them, rather than the creative sparkle. However, these agencies lack personal touch.

(iii) Boutiques : Their infrastructure is just sufficient for clients, though it is not heavy. Their work culture is more informal than super department stores. The creative edge is their strong point; usually provided by a few star personalities. They are guided more by gut feeling than by a systematic strategic planning approach. For newcomers, and for those who prefer creative campaigns, these agencies are a good choice.

(iv) Agencies for modest spenders : Small Indian private sector companies call on them.

(v) Sweat Shops : These agencies take up any job. They are local one-city operators. They are highly responsive. Their costs are low. The service is personalized and involved.
8. The following factors put an agency on top:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage Saying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of advertising output</td>
<td>79</td>
</tr>
<tr>
<td>Demographics</td>
<td>40</td>
</tr>
<tr>
<td>Attitude and involvement</td>
<td>40</td>
</tr>
<tr>
<td>Servicing – nuts and bolts</td>
<td>35</td>
</tr>
<tr>
<td>Specific expertise</td>
<td>28</td>
</tr>
<tr>
<td>Word of mouth</td>
<td>25</td>
</tr>
<tr>
<td>People power</td>
<td>20</td>
</tr>
<tr>
<td>Marketing orientation</td>
<td>7</td>
</tr>
<tr>
<td>Connections and associations</td>
<td>4</td>
</tr>
</tbody>
</table>

9. The following factors are the irritants in relationship:

(i) Poor servicing, (ii) lack of understanding of product objectives/brief, (iii) poor creative output, (iv) billing disputes.

MARG Survey-1996

MARG conducted a second survey of Indian ad agencies to assess client-agency relationship. In this survey, the following five roles of an ad agency were identified:

1. It provides advertising services by translating the client brief into a creative. It also provides alternative executions to the client.
2. It acts as a media consultant. However, very few agencies have a final say in the media choice.

3. It provides additional services like direct marketing, PR and helps other communication-related activities.

4. It acts as an extended marketing arm of the company by participating in marketing planning, setting ad objectives, debating ideas, devising the theme of the ad campaign and the ad spend. However, excepting the function of setting the ad objectives, the rest of the functions are still left out from purview of ad agencies by a great many client.

5. Ad agencies are pro-active friends. They generate producer/brand ideas, stands competitive foreign products/brands, continue post-testing of the campaign and familiarize themselves with the actual market realities by physically visiting the market.

On the whole, the role of an agency has expanded.

In selecting an ad agency, the most highly rated consideration is the quality of the creative followed by prompt client servicing. The next two considerations are the agency’s degree of involvement and dependability at all times – professionalism and trustworthiness.

MNCs, however, put a premium on client servicing whereas Indian private sector puts the creative much ahead of servicing. It is still true that good creative wins the accounts but bad servicing loses them. As Ranjan Kapoor puts it ‘New business is won on the basis of the agency’s creative product. Existing business, however, is retained on the basis of its ability to service clients.’