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## Management of Advertising Agency

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(i) "If you can't stand competition get out of business:"

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(ii) "You have to choose an agency carefully as bad advertising can unsell a product."

*For effective advertising the help of advertising agencies and their experts is necessary.  
The agency becomes a part of the company and understands all its aspects.*

# Management of Advertising Agency

Advertising job has now become very complex and very expensive. Most firms take the help and employ advertising agencies to do the job for them. For advertising to be successful the Advertising Agency and the advertiser have to work in unison and collaborate with each other. They work together in media selection, formulation of message allocating the budget and formulating the objectives of advertising. The firm should be able to give all the relevant information to the Ad agency—the information about the firm, the type of market and the consumer competition faced by the channels in use.

The agency becomes an insider and full collaboration must be established between the agency and the advertiser. The agency must be competent and should be familiar with the positioning and branding of the product and also about financing and distribution. The agencies are now very competent and have knowledge of all the aspects of marketing. They render special services like Market Research and help the firm to choose a proper promotion mix. The firm and the agency become close to each other and develop a lasting relationship for the benefit of both.

An advertising agency is a Service Organisation that specializes in planning and executing advertising plans for its clients. In India there are many advertising agencies having their Headquarters in Delhi, Mumbai and Chennai. The main reason for using the Ad agencies is that they can provide services of higher-skilled individuals who are specialists in their chosen field. They include artists, writers, media analysts, researchers and technologists. The Ad agency has varied experience in solving the problems of many companies and can be relied upon.

Advertising agency provides specialist service to companies which are interested in promoting their goods. These agencies started developing as back as 1840. It got its proper shape by 1901, and kept on developing till in 1950 they started giving its specialised service. There are many considerations for selecting an agency. These are:

- **Full-service agency** which has been discussed at length.
- Then we have the **Part time agencies** who can be hired for a short period of time. These are used for project basis as well. Advertisers can contact part-time agencies for coordinating their activities and working with them for a short period of time.
- **Compatibility:** By compatibility we mean how it serves the needs of the advertisers. It is the merit of the agency. They coordinate with the advertiser and availability of the opportunities.

- **Agency team** should be competent, experienced and be able to deliver the goods. The team consists of market resources, copywriters, media experts, production managers and other members. The attitude and thinking of the team goes a long way in its selection.
- **Agency stability:** How long has the agency been in existence, what is its track record, what has been its contribution to earlier clients, the experience and skill of the personnel in finance research production etc. help in selecting the agency.
- **Services:** What services have been rendered by the agency and in which area, has it been to the satisfaction of customer or not, what has been the area of operation and the success it has achieved, etc.
- **Creativity:** Agency chosen should have a lot of creativity as it is an important element for choosing the services of the agency. It should have an impact on the style, clarity, impact and memorable values in the advertisement produced by them.
- **Problem-solving approach:** This is most important for an agency. It should be able to foresee the problem and solve it as well. It should visualise the problems of the company, the public and try to resolve them by rational approach.

The other functions are:

- **Accounting and finance:** This is important and the budget has to be decided in advance so that there is no conflict afterwards. Proper allocation of budget and proper disbursement by the agency is also an important function.
- **Media:** A media or a media mix is considered for which the advertisement is prepared. While deciding the media, the reach, the frequency of release of the advertisement, the cost incurred and the objectives have all to be kept in mind.
- **Research:** It is a key function in the advertising campaign. All information is gathered systematically and logically which becomes an input for the company and the agency. Research may take up a lot of money. It has to be decided whether the research and how much of it is desirable.
- **Internal control:** The agency has also to manage its employees, finances, resources and take up all the managerial functions. The agency is itself an organization, it has its structure, control, income, expenditure and feedback.

## ■ 14.1 Function of an Advertising Agency

The agency, like any organization, performs all the managerial functions. These are:

(i) **Planning:** It plans the advertising campaign after getting the feedback from the client. The agency must have a fair knowledge of the company and its products. It should be aware of the market conditions, the target market, distribution method, price level and their conditions.

(ii) **Creation and execution:** To create a copy, to decide the illustration, photographs, colour, scheme, story if any—these should be chosen accordingly to the suitability of the media.

(iii) **Coordination:** Firstly, there should be coordination between the agency and the client. Then there should be coordination with the internal and external departments. Internal

coordination can be with finance, human relations, production and research departments. The external coordination is with the sales, distribution, retailers, media etc., and these are coordinated.

## ■ 14.2 Types of Agencies

### Full Service Agencies

These agencies provide service in all areas of marketing. They plan, create and produce the advertisement. They also perform marketing research for the company. They can help the company in making Integrated Marketing Communication (IMC) programmes. These include, sales promotion, personal selling, packing, design, publicity along with advertising. The IMC has been discussed in the chapter on Marketing Communication. The full service agencies have a bigger staff and can have various departments dealing in different functional areas. The diagram for the full service agency is given under:

#### Full Service Organisation Chart

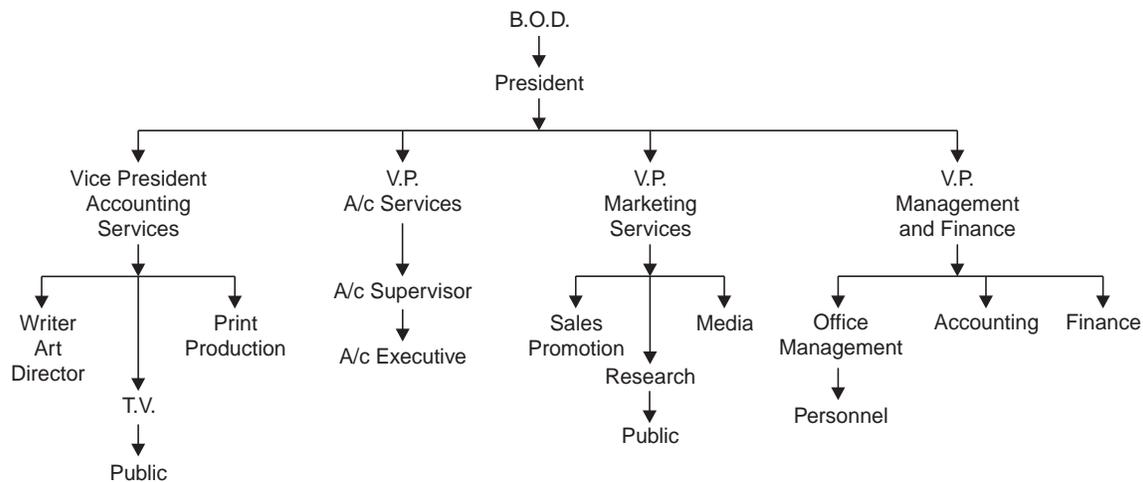


Fig. 14.1

The full service agencies may have various departments which specialise in their own fields.

1. **Account Service Department:** It is a link between the agency and the client. The account officer looks after the market promotion and understands the promotional programme and the amount of resources needed to execute these programmes.
2. **Marketing Services:** Under this heading we have a lot of services and accordingly departments are formed.
3. **Research Department:** It gathers, analyses, tabulates and interprets information. All this is done by primary and secondary sources of information and also by information available through independent research firms. The research staff interprets this information and passes these reports to other departments. The research department also

conducts researches to pretest the messages created and also to see how these messages will be interpreted by the audience.

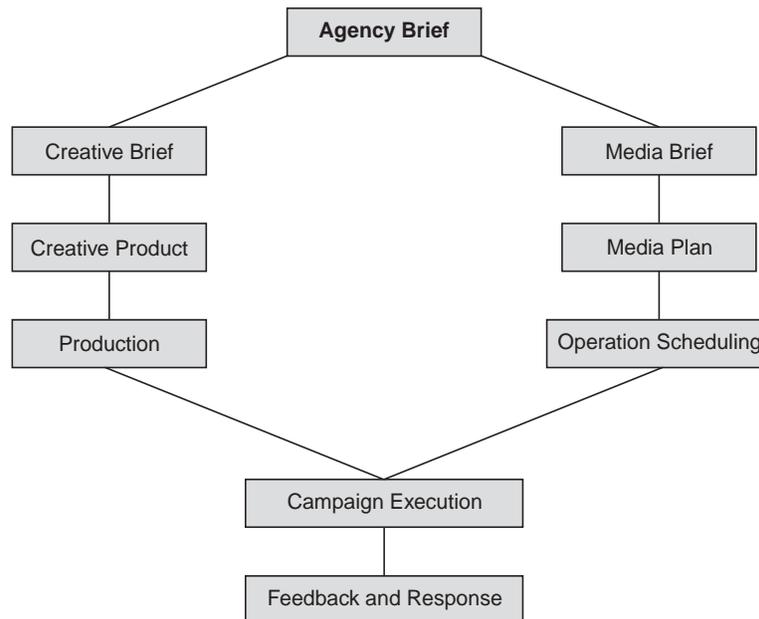


Fig. 14.2 Typical agency work cycle

4. **Media Department:** It decides a media or a media mix what will be useful and effective for the advertised products. It also chooses the media vehicles. As all firms are working with the constraints of budget available for promotion, the media selected must communicate to the right audience and be effective. The actual time to be purchased on T.V. and radio media. The space is purchased in newspapers, magazines, hoardings, painting on the walls and others. The media department is becoming very important as most of the cost promotion is taken up by the media. Full service agencies also perform functions besides advertising. They give additional services in promotional areas and perform Integrated Marketing Function (IMC).
5. **Creative Services (Copywriting) Department:** It is responsible for creating and execution of the advertisement. First the idea is conceived by individuals, then heading and sub headings are made and the body copy (message) is written down. This is known as copywriting. They also determine the basic theme and the appeal for the Ad and prepare a rough layout of the message with visual commercials. The art department gives it the form and the artistic touch for the T.V. commercial. *The art director* gives comments and approval for the improvement and acceptance of the Ad. The Ad is then sent to the production department where stories and commercials are produced. This is done by choosing people, celebrities, sportsmen or other prominent persons to appear in the commercial. Creating is a long and lengthy process. A traffic department coordinates all aspects of products and sees that it is released in time.

6. **Management and Finance:** Like all other organisations, management and administration is a part of the Advertising Agency. All functions of planning, organising, staffing, directing and control and the functional areas of accounting, H.R. and finance are looked after in a proper manner. The payment to the personnel is very important to keep them motivated and to ensure that they give off their best. Organisation chart of the organisation has been shown in the figure given earlier.
7. **Agency compensation:** This can be done through a commission system which has been usually 15% of the media expenses. Payment can also be paid by percentage charges. If the agency books an Ad of Rs. 100,000/- for a back cover page, it also agrees to a 2% cash discount to them. The billing will be done as shown below:

Booked for	100,000	If the ad is booked for	50,000
15% agency commission (-)	15,000	15% commission	7,500
	85,000		42,500
2% cash discount (-) on 85,000 payment or billing	1,700	2% on 42,500 (-)	850.00
	83,300		41,650

There is a criticism of the above system and many customers feel that they have to pay more to the agency as the media cost keeps increasing. This system also ignores the cost accounting system. It tempts the agencies to do undesirable things, like continuing the mass media advertising when other forms like promotion and publicity could be equally effective. Association of Natural Advertisers (ANA) have conducted researches and found that many firms do not want to pay the traditional 15% commission. Some clients prefer a negotiated commission system to compensate the agency. In this method, the commission is reduced to %age rates, variable commission rates and commission with minimum and maximum profit rate. Some resort to sliding rates that become lower as the expenditure increases. By doing this they end up with 8 to 10% commission for agencies when following the Integrated Marketing. Commission of expenditure gets divided into other promotional methods other than advertising. When the income from Media commission is reducing, then other methods are adopted.

**Fee Arrangement:** In this we have a fixed fee method and charges a basic monthly for its services and the agency commissions paid to the client.

**Fee Commission Combination:** In this the Media Commission received is adjusted against the fees. If the commission renewed is less then the client makes up the difference, if the agency works more in non-commissionable media, the fee is charged over and above the commission from the client.

**Costplus Agreement:** In this method the client pays all the costs incurred and some money agreed on profits (often a %age of total cost). The agency keeps the details of all expenses. Free agreements and costplus system are generally preferred by the clients and they get to know the break-up and the detailed accounts.

**Incentive-based Compensation System:** For demanding accountability some clients want to tie agency compensation to performance through some incentive-based system. The idea is to see whether agency meets the predetermined goals. The objectives could be the sales or market share and also the creative work of the agency. The other parameters could be brand awareness, copy test results, performance review etc.

**Percentage Charges:** This method adds a mark up on various services purchased from outside providers. It includes market research work, art work, printing, photograph and other services or materials used. The mark up are usually upto 20% and are added to the client's bill.

The agencies lose clients because of

1. Poor performance of service
2. Poor communication
3. Unrealistic demand by client
4. Personality conflicts
5. Frequent changes
6. Changes in size of the client or agency
7. Conflict of interest—Corporate strategy/Market strategy
8. Declining sales
9. Changes in policies

### Top Advertising Agencies in India 10 Years Back

1. Hindustan Thomson Associate, Bombay.
2. Ogilvy Benson and Mather, Bomaby.
3. Sobhagya Adv. Services, Bombay.
4. Clarion Adv. and Marketing, Calcutta.
5. Pressman Adv. and Marketing, Calcutta.
6. Lintas India, Bombay.
7. Rediffusion Adv., Bombay.
8. Ulka Adv., Bombay.
9. R.K. Swamy Adv. Ass., Madras.
10. Everest Adv., Bombay.
11. Chaitra Adv., Bombay.
12. Sistas Adv., Bombay.
13. Mudra Comm., Ahmedabad.

### Questions

1. What is an advertising agency? What are its functions?
2. What is agency compensation? Describe the payment under various agreements.