Canadian Advertising in Action (Canadian) 11th edition Tuckwell Solutions Manual

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CHAPTER 2

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.

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Advertisers (The Client)

This group includes manufacturers, retailers, service firms, governments, and non-profit organizations. Among the largest advertisers are Procter & Gamble, Rogers Communications, BCE Inc., Ford Motor Company of Canada, and General Motors.

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 Groupe (French). Most of the large agencies in Canada are owned by American organizations and are part of an International network of agencies. In Canada, Omnicom Group has full-service agencies (BBDO Canada, DDB Canada, and Juniper Park/TBWA), interactive agencies (Tribal DDB and Proximity Canada), media planning and buying agencies (PHD Canada and OMD Canada), public relations agencies (DDB Public Relations and Ketchum Public Relations), as well as branding and design companies (Karacters Design Group and Interbrand Canada). 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 best practices and procedures and to undertake tasks to promote the growth of member agencies.

The Media

There are five broad categories: *broadcast* (television and radio), *print* (newspapers and magazines), *out-of-home* (outdoor and transit), *direct-response* (direct mail and direct-response television), and *digital* (Internet, social media, and mobile communications). Revenue generated from all media sources is approximately $14 billion. The internet is the largest medium with advertising revenues of $3.9 billion, surpassing television, which was the largest medium for many, many years.

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The industry has seen a reduction in the overall number of firms in the last few years, a media convergence, that gives more control to a small number of firms. The two largest are Bell Media and Rogers Media.

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 by producing advertising with high entertainment content for video platforms, such as YouTube.

Media Support Services

Support organizations help promote the medium they represent in order to increase that mediums 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 overseas 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 manages can respond quicker to changes in the marketplace.

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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 works within the client organization and 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. Using an integrated marketing communications (IMC) focus, the advertising manager blends traditional media with digital media (online, social media, and mobile) and integrates with experiential marketing activities and public relations. Coordination is key to meeting business challenges.

3. ***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).

4. ***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 to demonstrate the impact of advertising spent on sales and the market share of a client’s brand.

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5. ***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.

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, public relations, 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

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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).

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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

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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. The increase in digital media had introduced two new roles to the creative team: production artists and web designers. 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). With an increase in digital media usage, agencies are managing a lot of analytical data on media buys and impact with target audiences.

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 behaviour, all media are now being funneled through the \internet. This has important ramifications for both creative teams and traditional media teams.

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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.

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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:

- DDB / Tribal Worldwide
- Leo Burnett
- Rethink
- Lg2
- BBDO / Proximity
- Saatchi & Saatchi
- J. Walter Thompson
- John St.
- Grey Canada
- Cossette

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

2. 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

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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.

3. 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 17, 2011, p. 23.

4. 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

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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. Makes you wonder!

Adapted from "CP+B loses North American duties for Coke Zero," *Marketing*, July 3, 2012, www.marketingmag.ca.

5. 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 2015. Please be advised that Nielsen Media Research no longer publishes publically the dollar value spent by advertisers.

1. Liberal Party of Canada
2. Rogers Communications
3. George Weston Ltd.
4. GM Corp.
5. Procter & Gamble
6. Government of Canada
7. Progressive Conservative Party
8. Chrysler Consolidated LCL Car Dealerships
9. Ford Motor Company
10. Fiat Chrysler Automobile Inc.

Source: Top 10 Trends, The Nielsen Company, 2015 data.

6. 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."

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- 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 of 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

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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

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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 x .15	=	$555 000
For production:	$400 000 + 60 000 x .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

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another example, as is the “Open Happiness” campaign from Coca-Cola. If successful such campaigns provide cost savings on the production side of the equation.

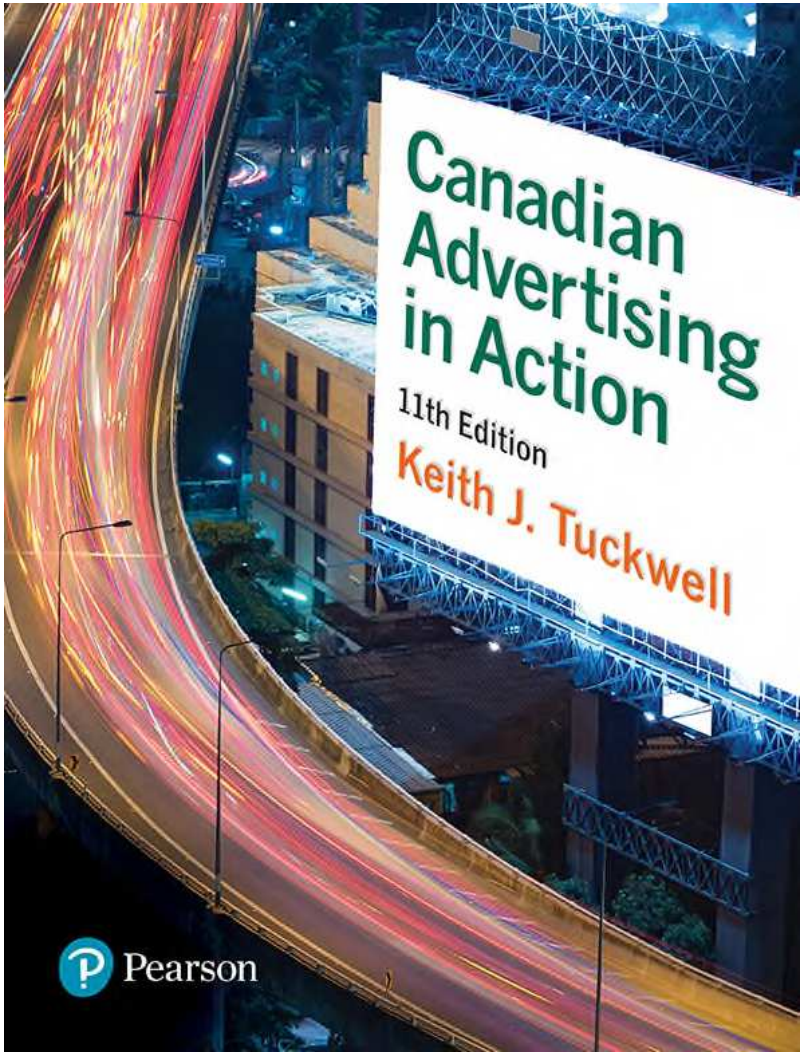
5. With clients tightening their belts at every turn, they want to use the payment-by-results system more than before. If clients and agencies believe in the “partnership” model than both parties should commit to the task at hand, and in the case of an advertising agency, stand behind the quality of 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.

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Canadian Advertising in Action

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Chapter 2

The Advertising Industry

Pearson

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Learning Objectives

After studying this chapter, you will be able to:

1. Identify the organizations that constitute the advertising industry
2. Identify and describe the various advertising management systems used by clients
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Composition of the Advertising Industry (1 of 2)

The Canadian advertising industry comprises six primary groups:

1. Advertisers (the clients)
   - Includes manufacturers, retailers, service firms, technology companies, governments, and not-for-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)

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Composition of the Advertising Industry (2 of 2)

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 and editing companies, software development companies, and media representatives
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, Newspaper Canada, Magazine Canada, the Out-of-Home Marketing Association, and the Interactive Advertising Bureau of Canada)
6. Research and audience measurement companies
   - Organizations that compile and publish media measurement data and other analytics (i.e., Numeris, Nielson Media Research, Print Measurement Bureau)

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Client-Side Advertising Management

Advertising management falls under the jurisdiction of the marketing department of an organization. It may involve the following:

- Brand manager (product manager)
  - Formulate and implement marketing strategies for assigned brands
- Category manager
  - Develop marketing strategies for all products/brands in a particular market
- Regional management system
  - Implement regional advertising campaigns in designated regions to help meet regional diversity
- International management system
  - Develop global strategies that can be tweaked to meet local market conditions – *"Think globally and act locally"*

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Client Responsibilities in the Advertising Planning Process

- Brief agency on assignments
- Coordinate advertising strategies with other marketing communications strategies
- Monitor the advertising program
- Evaluate the advertising program
- Liaise with the advertising agency

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Advertising Agency Roles and Responsibilities

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

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Client-Agency Relationships (1 of 2)

Quality advertising is the outcome of a sound and productive relationship between a client and an agency. The key to a healthy relationship involves:

- A partnership that encourages open and honest communications
- Trust and respect for each other
- A willingness to accept constructive feedback

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Client-Agency Relationships (2 of 2)

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:

- Clients dissatisfied with the quality of advertising or services provided
- New communications demands required by clients not adequately met
- Philosophical differences
- Lack of team chemistry between the two organizations
- Client consolidates their business with fewer agencies
- Conflict situations arising owing to account realignment a the parent company

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Types of Advertising Agencies

Various types of agencies operating in Canada include:

- Full-service agencies
- Account management
- Creative department
- Media department
- Creative boutiques
- Media buying service
- Marketing communications specialists: Direct response, digital, and experiential
- Industry and market specialists
- The generalist or the specialist

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Full Service Agency (1 of 2)

A full-service agency offers integrated marketing communications solutions to its clients, including:

- creative planning
- creative development and execution
- media planning and placement
- sales promotion
- public relations and direct response
- interactive communications

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Full Service Agency (2 of 2)

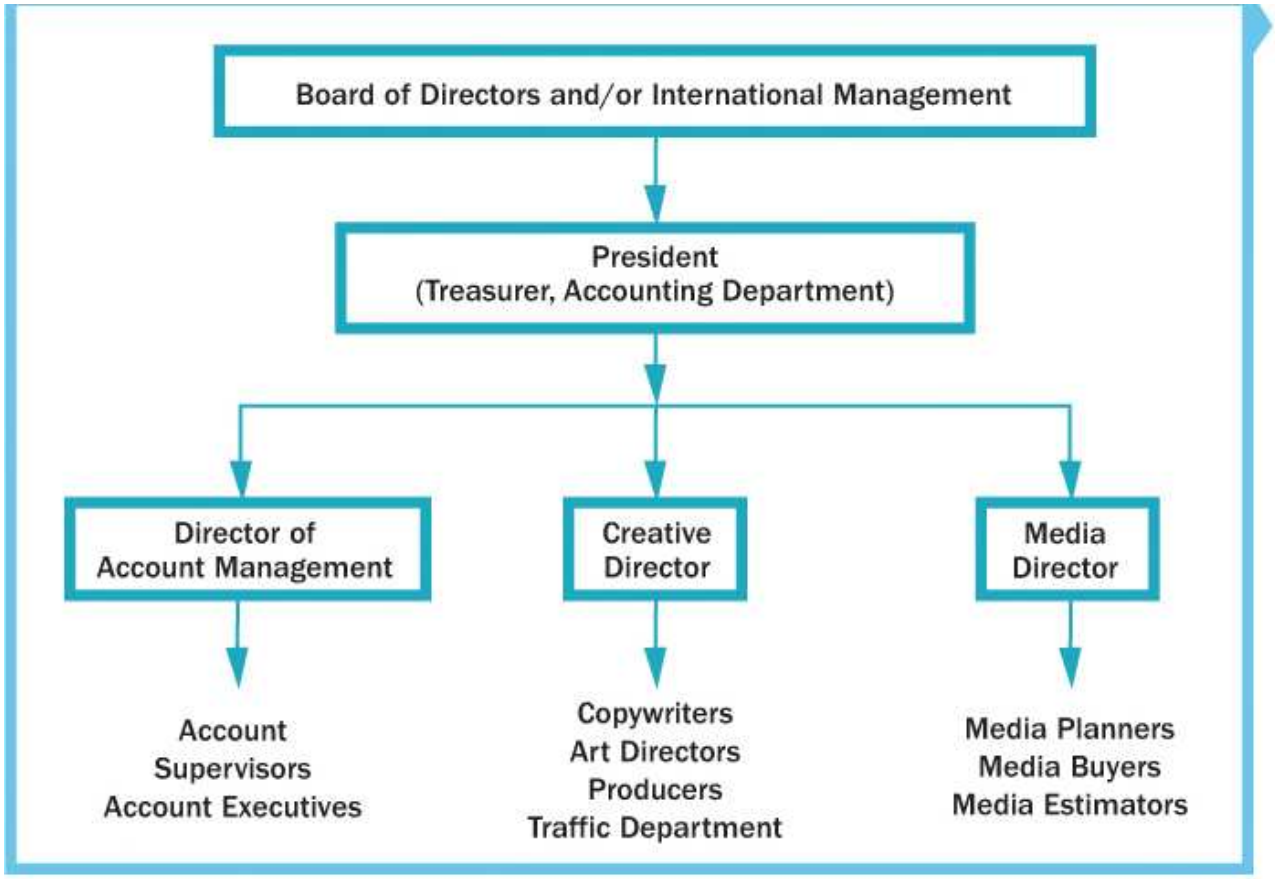


FIGURE 2.3

Organizational structure of a full-service agency

Source: Institute of Communication Agencies.

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Account Management

Business and Marketing Orientation

1. Account Director
2. Account Supervisor (reports to Account Director)
3. Account Executive (reports to Account Supervisor)

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Creative Department

Conceptual and Creative Orientation

1. Creative Director
2. a. Copy writer (reports to Creative Director)
3. b. Art Director (reports to Creative Director)

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Media Department (1 of 2)

The **media department** is responsible for the planning and placement of advertising time and space.

The main functions of the media department are:

- Media planning
- Media buying
- Media research

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Media Department (2 of 2)

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

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Managing the Client's Business

Agency teams

- A full-service agency typically manages a client's account with the following personnel:
  - Account executive and account supervisor
  - Art director and copywriter
  - Media planner and media buyer
  - Hybrid teams

Competing accounts

- Agencies will not, as a rule, accept assignments from a client who is in direct competition with a current client.

Agency of record

- On the media side, a multi-product advertiser often appoints one agency to be the agency of record (AOR) – a central agency responsible for media negotiations and placement.

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Agency Compensation (1 of 3)

The Commission System

- E.g., agencies charge 15% of the dollar value of the media time and space for clients

The Fee System

- Retainer – the client pays the agency an annual fee agreed on by both parties
- Hourly fee

Payment by Results (PBR)

- An incentives-based payment system that keeps the agency focused on achieving goals
- Link the performance of a brand to advertising

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Agency Compensation (2 of 3)

Commission System

Pros:

- Simple to implement
- All services are provided at no additional cost
- Pressure on agency to keep costs down

Cons:

- Profit on some brands (larger budgets); losses on others (smaller budgets)
- Agency recommendations for higher expenditures may be self-serving
- Payment is based on media cost, not the work provided

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Agency Compensation (3 of 3)

Fee System

Pros:
- Client pays only for services provided
- Agency is accountable for all time devoted to the client's account

Cons:
- High administration costs
- Difficult for agency to forecast workload

Payment-by-Results System (Lower Commission and Incentives)

Pros:
- Encourages neutral media recommendations involving a variety of media
- Additional revenue to agency for successful campaigns

Cons:
- Accountability; potential loss on account if results are not achieved
- Influences beyond the control of agency could negatively affect advertising

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