Industry Analysis by R3

Industry Analysis
R3 Asia Pacific

1. The state of play globally

Today in 2004, the Singapore advertising market is one of the most developed and sophisticated in South East Asia and the world - all the major global agencies are here in force, along with a number of regional ones (Dentsu, Chou Senko, Hakuhodo, Bates, Batey, Chiel and others) and an extensive group of competitive local agencies - in fact, Singapore has more agencies per capita than any country in the world. This section looks at the changes in agency structure and direction globally and locally, compensation trends for marketers and their agencies and the state of the client-agency relationship

Holding companies consolidate

In the space of five years, 80% of the world's advertising and marketing services now resides within 4 main holding companies. This year, with the acquisition of Cordiant by WPP, this trend has only continued. In Singapore, we believe this number is closer to 70%, but is still substantial. Four main groups, all publicly listed, now dominate the sector. We have also seen the trend of single holding companies making client deals - for Coca Cola, Ford and Daimler Chrysler as a start. We are yet to see, however, the economies of scale and benefits flow onto clients.

GROUP	AD AGENCIES	MEDIA AGENCIES	OTHER AGENCIES
WPP	Ogilvy, JWT, DY&R, Red CellBatey (75%), Bates Asia	Mindshare, MediaEdge CIA	PR, BTL, CRM Research
Omnicom	DDB, BBDO, TBWA	OMD	PR, BTL, CRM
Interpublic	McCann Ericsson, Lowe, FCB	Universal McCann Initiative, FCB (Asia)	PR, BTL, CRM,
Publicis	Publicis, Leo Burnett, Saatchi Fallon (60%), BBH (49%)	ZenithOptimedia StarcomMediaVest	PR, BTL, CRM
Dentsu	Dentsu	Media Palette	PR, BTL, Media
Havas	EuroRSCG Arnold	MPG (ex Asia) Motivator (Asia JV with WPP)	BTL
Grey Global Group	Grey Worldwide	MediaCom	PR, BTL, CRM Entertainment
Hakuhodo	Hakuhodo		JV with Daiko, Yomiko
Aegis		Carat	Synovate, Filter (20%) SPI Japan
AsatsuDK	Asatsu DK	Asatsu DK	

Integrated marketing a must - but one agency?

Every agency and holding company has recognised the importance of delivering integrated solutions involving advertising, PR, CRM, Promotions, Interactive and other disciplines working in harmony. The biggest challenge we've seen is this materializing into real deliveries on an ongoing basis for marketers. Because of different cost centres, politics and a complete understanding of each other's capabilities, there are far fewer cases of successful integrated solutions from a single agency than the financial commitment behind these structures might suggest. Marketers are now becoming the centre of gravity and forging three ,four and more agency relationships to achieve what is needed.

Global agency agreements
Today over 40% of US based multinationals have a global agency agreement / alignment - and this number is up from 15% just ten years ago. This presents a challenge for marketers and agencies with strong and weak offices across boundaries. It also makes a challenge for global campaigns to deliver as much resonance in every market and not get watered down to appeal to none. Global agreements also mean global systems, templates and co-operation, hopefully streamlining and enhancing the production of communication

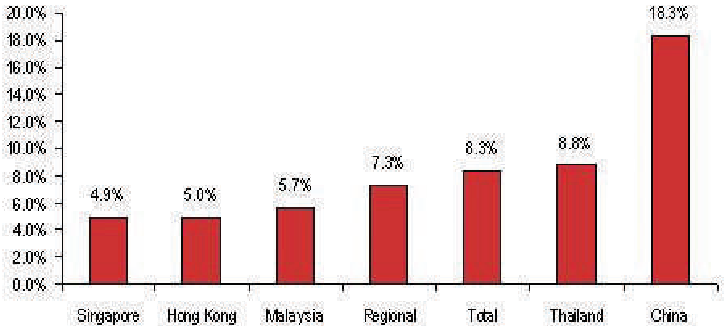
Labour Based Fees take off
Our latest research in the US in 2003 shows that labour based fees account for 78% of all client-agency compensation agreements. The reasons for this are simple - for the last 100 years, marketers have not got what they paid for from agencies ,they received service that correlated to around 15% of their media spend . Some marketers need, want and are willing to pay for far more than this - others require less. The important point is that agencies are now being paid specifically on what they deliver - with complete transparency and an agreed profit margin

Payment by Results more common in agreements
With this transparency, more and more clients are now allowing their agencies to 'get some skin in the game' - to get rewarded for a combination of successful performance of the agency, the advertising and increasingly, the advertiser. As R3's core consulting basis for the last thirty years, we assist in establishing and benchmarking this fee and setting the parameters to measure in twelve months time. From our US experience, we've seen 83% of marketers that have migrated to Payment by Results report an improved performance from their agency. And all the enlightened agencies we talk have also embraced it as it gives them an opportunity to succeed.

The rise of procurement
Today in the US , close to 50% of all new agreements for multinationals involve the procurement department - and we increasingly see in Asia finance and procurement teams working with the marketing department on agency appointments. This is a reality that smarter agencies are preparing for by training their own people, and often educating procurement people.

2. Regional trends for 2004 and beyond
A surge of advertising expenditure in China is expected to fuel a regional rebound in marketing investment in 2004. In this first survey of its kind ever in Asia, JPMorgan and consulting group R3 Asia Pacific analysis shows advertising expenditures in Asia will jump 8.3 % in 2004, in line with JPMorgan's forecast for Asian economic growth.

The survey talked directly to 200 marketing decision makers across the region for the first time. It points out the highest advertising growth markets are China (+18%) and Thailand (+9%) compared with lowest advertising growth markets of Singapore (+4.9%) and Hong Kong (+5%). China's advertising growth is expected to exceed the economic growth by 1.4 times. Thailand's advertising growth should match the GDP, while advertising in developed Asian countries is expected to lag the GDP growth.



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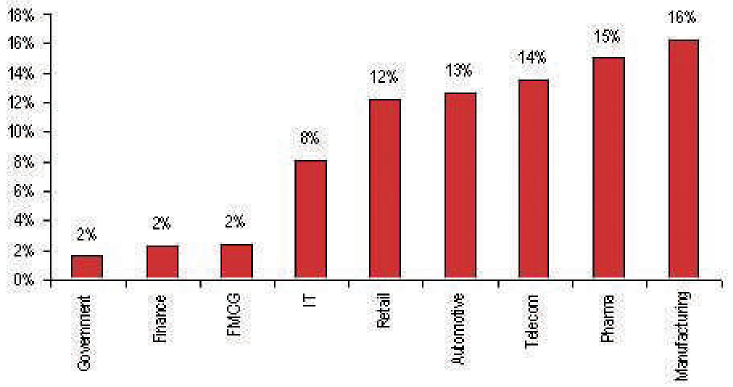
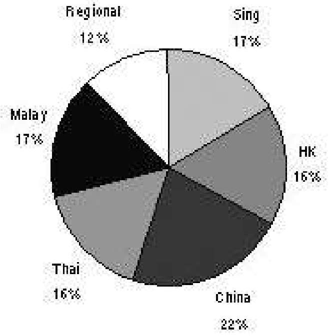
China's outdoor advertising should be the highest growth sector in 2004, reflecting the combined benefits of strong cyclical growth and a structural shift of ad spend out of television into outdoor



The pharmaceutical, manufacturing, telecommunications, automotive and retail industries are budgeting for more than 10% growth in advertising in 2004 while fast-moving consumer goods (FMCG), primarily in Southeast Asia, and the regional finance industry are expecting a flattish year for advertising expenditure.

Television's historical dominance of advertising budgets across the region is under pressure following large advertising rate increases in recent months -this is pushing ad spend away from television and into outdoor advertising (particularly in China) and new media (Internet, customer relationship management (CRM)
The survey also suggests spending on below the-line (e.g. direct marketing, public relations, event marketing) is expected to increase in 2004 from 37% to over 40% of the marketing mix. Well over a third of respondents indicated they would be specifically shifting funds from above the line to this sector, with the automotive and IT categories leading the way in terms of BTL thrust.



The analysis drew responses from 179 key decision makers of corporations across 5 key markets in Asia (Singapore, Thailand, Malaysia, Hong Kong and China.) on advertising and marketing budgets as well as 24 key regional budget holders . Marketers included HSBC, Nokia, Canon, F&N, Nestle, Unilever, J&J, Hewlett Packard, Cathay Pacific, Hang Seng Bank and Caltex, along with local China marketers such as KangshiFu, Yue Sai, Shanghai VW, Li Ning, Shanghai GM, Maxxiumm, and Shanghai Dairy.

It is estimated that these 203 corporations will spend US$1.5 billion in advertising and marketing in Asia this year, equivalent to US$7.3 million per advertiser. As a result, trends emerging from the survey are reasonably indicative of the trends expected in the markets as a whole. The results of the survey offer investors and industry players insight into the expected growth in the total marketing budgets, how marketers allocate between various advertising and marketing platforms (e.g. television, newspapers, outdoor radio and direct marketing), and how this mix will change over the next 12 months.

The implications for Singapore are clear - growth is lagging the rest of Asia in the sector and more funds than ever before are moving into non-traditional marketing areas. The traditional media will need to continue to innovate in terms of content and context to attract marketing dollars.

3. Evaluating Agencies

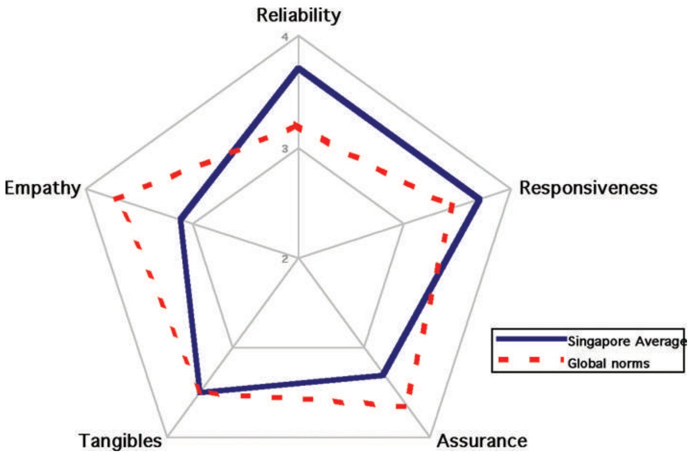
Recent relationship studies conducted by R3's European offices and here in Singapore raise important questions on the role of the agency and how it must evolve to meet with client needs.

The most recent research, the second in three years, looks at marketers' satisfaction with agencies on some core areas - Agency Values, Integrity and Trust, general service quality and other key indicators, before mapping these against what the agency thinks of the clients.

Five core criteria were specifically then aggregated and benchmarked

Reliability
The agency keeps its promises, get the job done right the first time and deliver error free records with clarity
Responsiveness
The agency delivers prompt service, can easily be reached and go that extra mile for the client
Assurance
Agency management is accessible, employees have the highest levels of integrity, and are clear and honest
Tangibles
The office and staff are practical and functional, efficient at 'housekeeping' and ensure the good appearance of the agency
Empathy
The Agency gives personal attention, understanding of the needs and Management has a clear client focus

These have then been measured and graphed based on over 200 relationships
When Singapore is compared to the rest of the world, we see that marketers have a stronger view of reliability and responsiveness here from their agency, this sense they will get things done in an extremely efficient way. Where the gaps are for Singapore agencies is in the areas of Assurance and Empathy - the lack of detailed understanding of the client's real business issues and the lack of senior management involvement on their business



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Our belief is that these results link back to the way marketers pay their agencies. Most of the work is commission or project based (an alarmingly high 29% of Asian relationships are project based) often preventing the agency getting a deep knowledge of the client's ultimate business challenges. Coupled with this is the ever-tightening squeeze on costs and the pressures from the agency's holding companies to keep pursuing more profitable new business. This makes the senior management very accessible during pitch time, less so as the account is won and the tactical realities sink in

The future role of the agency

As one UK agency head put it "We are thought of as an industry that sells ads rather than gives advice - we have become identified with the pictures and less identified with the thinking behind them" The challenge for agencies in Singapore - as in anywhere else in the world - is to clearly demonstrate the value of the service they provide. While the agency world is still that of talent, and can never be bought or sold like IT and stationery, it increasingly needs to wear a commercial hat to answer the marketing and business challenges of its clients. One industry pundit, on reviewing an Asian agency's book on '360 degree branding in Asia' put it quite clearly - "it shows again that even this agency, seen as one of the greatest communications companies in the world, remains just that : primarily a producer of communications, not a driver of business profitability"

For the agencies, this means measuring the responsiveness of each piece of communication, or in the case of brand building initiatives, tracking these over time. It means truly thinking media neutral, and recommending an event or sponsorship rather than something media related when they are more appropriate. It means truly being an expended arm of the marketing department and offering considered views on price, place and product. Ultimately, this will mean everyone benefits.

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