BULLETIN

RESULTS

GLOBAL BUSINESS ISSUES FOR
THE ADVERTISING, PR, INTERACTIVE
AND MARKETING SERVICES INDUSTRY

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THE BIG ISSUE

Keet out of steam

Perhaps we should not be surprised. In recent years, we have experienced a consistency in growth and an economic stability that is unprecedented in modern times. All good things come to an end - .

In global terms, the US remains the only economy large enough in the world to drive global recovery. Coming out of a period of modest growth by its standards, its performance currently is stodgy compared to the powerful growth is has tended to show in the past.

While there is excitement about the potential of China (see article later in this issue), it remains in the early stages of development and progress may not be smooth.

The sudden outbreak of gloom provoked by the recent Bellweather report and revised media spend figures from Zenith are predictable not least in their tendency to hyperbole. [60%] Fall in media forecast!! Well, yes, [60%] drop in the growth rate attributable (?) to media spend - still growth though and above the forecast rate of economic growth. But in an oversupplied industry, the water of media spend needs to flow freely to feed the industry.

Where we appear to be is at the end of a sustained period of economic growth sustained by consumer spending, financed by credit card debt and rising house prices.

We live in confusing times. The traditional bellwether for economic health seems seriously askew. Take, for instance, an endlessly recurrent topic (at least in the Daily Mail), house prices:

House prices are up! Good news for homeowners, personal wealth on the increase, good for consumer confidence.

House prices are up! Bad news for first time buyers; dangerous signs for consumer lending; market in danger of over-heating.

Most of us could probably replicate this sort of paradox for a number of other economic indicators. But, of course, it is not really a paradox at all. It is merely an exploration of all the aspects of particular economic indicators.

The question emerging from this is, are we seeing an increase in one-eyed reporting generally in the media? Most would say yes; not least, as the media is largely unloved by most of us. Is that just as much a push/pull function of consumer knowledge?

Quote, Unquote

"There are only two important functions in business, marketing and innovation; everything else is just cost.

Peter Drucker

Getting your head round neuroscience

Neuromarketing. Flavour of the month or the latest dodgy marketing gimmick? Are we being hoodwinked by men in white coats? Or is it a shiny new tool that will transform the way we understand consumer behaviour and dramatically improve the effectiveness of marketing communications?

For the cynics among you, here's why you should be taking the "N" word seriously. OK, bear with me, here's the bold claim. Neuromarketing is the biggest market research breakthrough in 25 years! With it, we can measure brain response in a radically different way from traditional market research. It can help unravel precious new insights to allow us to significantly re-assess how consumers really react, when exposed to marketing messages. It will help us evolve and guide brand marketing. Used adroitly, it may have the capacity to deliver serious competitive advantage, and aid the development of more effective strategies, more inspiring creativity and ultimately therefore a greater ROI on marketing investment. Ignore it at your peril.

For emotionally-driven brands, Neuromarketing can help overcome the frustrations many of us feel about the over-reliance on conventional, industry-embedded methodologies which do not yield adequate clues to explain convincingly the real patterns of consumer response and behaviour.

So what is Neuromarketing?
The opening premise is that most consumer purchasing decisions happen below the level of normal awareness. It then follows that they can be only partially interrogated and articulated. Conventional research techniques have failed miserably to explore and shed light on this deeper, murkier world of brand drivers and emotions.

Neuromarketing is born from neuroscience which studies the subconscious mind, and until now has lived in the domain of academia and medical science. By studying, in real time, variations in the different patterns of electrical activity in the brain, one can gain a very considerable understanding of what is going on in the mind at any given moment. The measurement of mind-states, emotions and other sub-conscious responses allows us to gain a far greater appreciation of the true nature of reactions to marketing messages.

In isolation, the use of neuroscience in marketing is very powerful, but when studies are fully integrated with rigorous projective techniques (that is,enabling techniques such as word association, balloon speech bubbles, collage, picture association, etc), then the insights generated are even more compelling.

The most fertile ground for marketers and planners is to be found here in this marriage of the conscious and the sub-conscious mind - a kind of magic, but definitely not a dark art.

The technology…. for technophobes!
The last few years have seen major advances in neurological analysis and interpretation together with tremendous improvements in EEG (Electroencephalography) measurement technology; the technology of choice for neuromarketing research. With wireless capability, the very latest equipment is light, unobtrusive, mobile and fully portable, giving newfound freedom to measure responses in almost any environment.

What can EEG measure?
When integrated with motivational qualitative research, EEG provides some real added-value measures for marketers. In addition to key research levers such as arousal and engagement, one can observe and measure precisely what is happening in different regions of the brain over the entire period of engagement. By correlating such dynamic changes with the ever-increasing body of Neuromarketing research evidence, it becomes possible to understand the nature and intensity of emotional responses as well as aspects of attraction or avoidance, attention and memory.

To provide additional robustness, EEG links well with parallel measurement of physiological reactions e.g. breathing patterns, heart beat, eye movement and stress levels.

As with conventional focus groups, EEG studies can yield highly valuable information even with small samples of respondents. For straightforward studies, sample/cell sizes of 24 are considered to reasonably robust to highlight patterns of response.

As with most qualitative methodologies, different psychographic profiling plays a role both in the response patterns themselves and in the neurological interpretation of that response. For example, academic studies have thrown light on the different response patterns of extroverts versus introverts. On the issue of the degree to which willing participants in a study will bias results, it's worth noting that many of the neuroscientific studies conducted hitherto have been with willing participants, so the accepted cause-effect linkages and response patterns are therefore already founded on those more prepared to be involved.

Benefits over traditional research
EEG measures real levels of interest and arousal, rather than simply what people state or imply. And real-time measures mean it's possible to identify the specific triggers that evoke those specific responses.

Yet more beguiling is the ability to study sub-conscious response not just to audio-visual material but to fragrances, flavours and feel - in fact any combination of the five senses - opening up whole areas poorly served by current market research techniques. Not only does Neuromarketing yield the nature of true emotional reactions, but it helps overcome another perennial research problem; the difficulty consumers have in actually putting their feelings into words.

EEG is relevant for a wide array of topics including Brand Imagery, Advertising, Promotions, Film & Programming content, Computer Games, Packaging Development, Concepts & Ideas, and NPD. Its portability means there are few restrictions on where it can be used, e.g. in home or lab, in hall or mall, in fixed sites or fully mobile. So measuring real-time response at live events or in-situ environments is now perfectly feasible; an exciting possibility for the growing number of companies, which invest significant, Editorial:

My space

If ever there was proof that the net had come of age, it must lie in Rupert Murdoch's eye-watering acquisition of Intermix Media and its prime asset, MySpace.com.

MySpace is a community-based site, where users spend their time recording blogs, in chatrooms, sharing information and generally networking. A site therefore that represents the epitome of the net - free, consumer-led, informative and open source.

And it has no revenue model beyond ads. Yes, that's right. The arch-capitalist spent £300m+ on something that doesn't do anything more commercial than postads. For every media buyer who has been beaten up by News International, this must be bewildering to put it mildly.

Now Murdoch is an admitted late convert to the net. It is only a few months since he announced he was a 'digital believer'. So what do we have here? A late convert embracing his 'religion' rather too enthusiastically? A 74 year-old trying to be a teenager? A lifetime newspaper man grasping for a new growth vehicle?

Checking out his record, you wouldn't want to bet against him. His hijacking of satellite television in the UK was masterful. His papers still make money (mostly). But no revenue model?

What we may be seeing here is a fundamental test of what will and won't be possible commercially on the net. Assuming it remains essentially free at the browser level, can a free community either be turned into a commercial operation without the users running away, or, more intriguingly, can a commercial business get sufficient value (Trends? Opinions? ...) to justify sustaining a free community?

As they nearly say, watch this web site!

Digital developments:

From dot.com to dot.mob

by Mike Bayler,

Let's talk about mobile. As I write, there's a frenzy of interest in the medium (or, more specifically in the content that fills the medium) that reminds me very much of that dot.com thing.

Big agencies out there with war chests, looking for small mobile firms; advertisers putting pressure on agencies to deliver brand messaging into mobile. Most striking, is that everyone's obsessed with the type, in particular the richness, of media content that can, as bandwidth grows, be delivered into the consumer's attention, and how this compelling content (that awful phrase alone should set off alarms) can gain brands the permission they seek to dance with the increasingly elusive mobile consumer.

There's an assumption of "latent consumer intimacy" here, a sense that the consumer is "there for the taking" in a manner that mobile, better than any other medium before it, can for the first time enable. Sounds, does it not, all too similar to the siren call of the Internet, before it went belly up in 2000?

Instead, I'd like to talk about the true nature of the medium of mobile, and what it really means for consumers and the brands that court them.

Mobile is a quantum leap in the world of media. Commonly perceived as, in turn, an extension of fixed-line, the email account, the record shop, the movie theatre or video, and, of course, the networked PC. In fact, leaning unashamedly on Marshall McLuhan, the mobile is first and foremost an "extension of ourselves".

With mobile, the consumer is no longer at the far end of the well-established media supply chain, with brands, producers and rights owners at the other end, and channels and devices linking them together. Our mobile consumer is at the heart of his or her own communications universe, with mobile hard-wired to hand. This is a bullseye not a supply chain - the next ring out is about the state I'm in and the needs and wants that result. Next out are services that support me; finally, way out on the outside, is content. - all dressed up and no one to talk to!

Mobile, most fundamentally, appoints the consumer to a new role altogether - as their own media owner. So talk of 'push v pull' and so on, based on the old linear supply chain model of media distribution, is now close to nonsensical. If anyone's doing any pushing here, it's the humble - yet increasingly empowered - mobile consumer.

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This is not another channel, not another device, and certainly not another media buy. The currency of value here is, well … value. Our mobile user is in "stand-up" and "in-motion" mode a fair amount of the time. Can we get out of the old FedEx model of moving stuff from A to B and get used to the new way?

I leave you with the master (don't forget this was written in 1963):

"By putting our physical bodies inside our extended nervous systems, by means of electric media, we set up a dynamic by which all previous technologies that are mere extensions of hands and feet and teeth, will be translated into information systems ... We must serve our electric technology with the same servo-mechanistic fidelity with which we once served our coracle, our canoe, our typography, and all other extensions of our physical organs. But, there is a difference here. Those previous technologies were partial and fragmentary. The electric is total and inclusive." Marshall McLuhan.

Michael is a strategist and futurist based in London. He works with a wide range of companies on innovation management and marketing.

The Talent Challenge

By Ruth Spence-Stone, Lecturer in Advertsiing at the University of Technology, Sydney

lAll agencies agree that finding and keeping good talent is an industry-wide problem across the world. As a former advertising executive, Ruth Spence-Stone was given a unique opportunity to approach this concern from the start of a graduate's career. In her current role, she set out to build an advertising course that reflected industry needs, rather than educational assumptions.

The results of months of interviewing heads of advertising and media businesses paid off with affirmation for the need of her newly created 4-subject program in advertising within the successful BA in Communication (Public Communication) and development of the 1st post-graduate subject in inventive media advertising strategy for 2005. Moreover, her findings will have flow-on benefits for the industry's corporate program, AdSchool, an entity that has doubled in size since opening its doors in 1999.

Ruth's research clarified what is commonly known; that while the desired position for an agency is to be the 'brand architect' or 'top dog' that is trusted, relied upon and advocated, in truth relationships with advertisers have become more tactical, harder to access and commoditised.

Her research indicates that, to reclaim the high ground with clients, agency heads believe that their industry needs to hire new graduates with four key attributes.

First and foremost, they need to be insightful. They need to be generalists who are able to see the macro picture and have the skills to solve problems.

Secondly, graduates should be inclusive. If agencies believe "a good idea doesn't care who it happens to", then training should aim to create collaborators, not gatekeepers. An open, all-embracing development process can nurture team ownership. Clients need opportunities to buy in to the value of idea generation.

The third attribute identified is that of being 'interactive', where graduates need to understand the consumer's engagement of emerging technologies, their relevance to building brand relationships and a client's ability to efficiently reach them.

Finally, it is essential that graduates should be inventive in solving a client's problems. They should be operating from a bank of knowledge about the past and enriching it with inspiration from new and surprising sources in order to think about solutions laterally and find new ways to engage the consumer.

While finding graduates with the desired attributes may seem like a tall order, UTS' course has gone part of the way to try and instil these values into its students. Ruth Spence-Stone made the point that agencies themselves should take some of the responsibility of nurturing these attributes further. She championed the need for positive changes within agency environments, because in her view currently, they are not actively developing career paths that encourage or attract graduates with the desired attributes.

Ruth offered in agencies' defence that the pressure from today's price and time factors is a key constraint for them, but somehow these factors have to be managed. Agencies need to nurture talent in three main business areas: creative thinking and idea generation, client relationships and understanding of consumers and their relationships with brands.

The development of all three areas relies on emotional intelligence and synergy, a culture of diversity and an atmosphere conducive to communication and dialogue. If agencies can get this right, they are well on the way to attracting, and critically keeping hold of, the right kind of talent for the success of their business and ultimately their industry.

This is a synopsis of a presentation by Ruth to our last RIC Conference. If you would like to discuss the issues raised in this article, please indicate on page 11.

Getting your head round neuroscience

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sums in building brand relationships through experiential marketing.

When it comes to assessing creativity and emotionally-based communic-ations, there's more on offer. The Advertising, Packaging and NPD industries have long bemoaned the tendency for great ideas to be quashed through conventional market research methodologies, often of dubious provenance. At last we have a tool that can reflect consumer reaction to marketing messages more faithfully. It will also shed light on how it is that acclaimed campaigns and initiatives sometimes score surprisingly poorly in conventional tests.

So there you have it. Admittedly it's by no means an exact science as yet, but EEG used by experts in conjunction with other established qualitative research techniques, can provide invaluable new perspectives to help guide strategies and as a result enable agencies to deliver greater ROI. Technology and expertise will develop fast and strengthen cause-effect patterns. Add to that its potential to engage those "hard to reach" marketing areas, then it looks like Neuromarketing represents a new and fascinating era for the world of marketing in general and marketing communications in particular.

If you would like to discuss negotiation further, please indicate on page 11.

When the dam bursts ....

2004 saw the return of an active market for M&A in the industry, although still at a pretty modest rate until late in the year - and driven by buyers.

When the results of the annual marketing communications "M&A survey of opinion" conducted by WKS Results (a joint venture between Results and Willott Kingston Smith) came through.it was clear that bwe were moving on to a higher level.

An extremely active M&A market was predicted for 2005. Crucially, 51% of sellers were now showing the sort of enthusiasm for M&A activity that buyers had in 2004 - in last year's survey, only 24% of sellers said they would 'act now'. In addaition, of the 30% of sellers indicating 'delay' this year, only 9% envisaged that delay taking them beyond 2005.

Five sectors expected an increase in M&A activity in 2005 compared to 2004. Unsuprisingly, 39% expected more M&A activity in Interactive, 38% in Direct marketing (anj old favourite along with database. A newcomer to this leading group was Public relations at 34%, rfeflecting perhaps a long period of difficulrt trading conditions now passing, at least in intensity. Finally, there was Database marketing at 33% and Specialist advertising (e.g healthcare) at 29%

Underlying these trends is the fact that to a large degree confidence has returned to the market. Good growth rates were anticipated across all sectors. As usual, individual businesses expected to do better than their sector, which in turn they expected would perform better than the industry as a whole.

The most optimistic expectations for organic income growth came from public relations (23%), direct marketing (22%) and interactive/ digital (18%). Interestingly, the responses from across the industry as a whole put growth rates for these sectors at 6%, 14% and 19% respectively; an interesting contrast showing in particular that the degree of self-confidence felt by PR businesses is not reflected in the views held b those outside it.

As noted in the front page article, there may now be a cloud or two on this horizon and it will be interesting to see what responses are received in January 2006 when the next survey is due to be conducted.

There has been one particular change in the marketplac ethis year - the involbvement of Private Equity. While smaller deals continue to remain below their scope, they have involved themselves in £5m deals and sometimes lower when further funding/investment is planned. And these investments have included partial exit as well as the more usual development funding.

As a result, they have for some vendors become viable alternative candidates to trade buyers and short term IPOs.

If you would like to discuss any aspects of this article further, please indicate on page 11.

Merger & Acquisition opportunities

The details below represent top-line information on a variety of business opportunities with clients who have retained our services.

Sector	Transaction	Outline details	*Ref*
UK:			
PR	Sale	London based reputation management consultancy seeks larger PR group buyer.	39/8850
AD	Sale	Leading out-of London agency, £700k pbt, blue chip client list.	39/9046
DM	Sale/merger	Small profitable specialist lead management agency, London based seeking a buyer.	39/9121
FUL	Sale	Fulfilment business based in the North of England seeks buyer.	39/9132
NM	Sale	Established Southern based digital agency, seeks acquirer.	39/9136
D	Sale	Strategic identity and design consultancy, pbt £500k.	39/9139
E	Sale	Specialist events consultancy, pbt £900k seeks buyer.	39/9140
International:			
NM	Sale	Spanish online media management agency with own proprietary software.	39/9104
BC	Sale	Strategic communications planning agency based in Hong Kong.	39/9117
INT	Merger	Central Paris based, 5.5m euro revenue integrated agency wishes to merge.	39/9118
AD	Sale	Leading Canadian agency with $9m revenues and excellent creative profile.	39/9131

AD=Advertising; BC=Brand Consultancy; D=Design; DM=Direct Marketing; E=Events; FUL=Fulfilment; INT=Integrated Marketing; NM=Digital Marketing; PR=Public Relations

Conditions:

1. All clients whose details are provided in this Bulletin, and respondents, are deemed to accept the need for absolute confidentiality on all information provided by clients and will be expected to sign a confidentiality letter before any information will be provided.
2. Important note: The information contained in this document does not constitute an offer or invitation to subscribe for shares. Every reasonable effort has been made to ensure the reliability of the information contained herein, but no warranty is given as to its accuracy or completeness.

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Agency management:

Funny old thing, management

by David Welling, Orchard Consulting

Ask a hundred managers for a definition of management and you get a hundred answers. All, no doubt, virtuous and none of them wrong (as far as they go), but, well, not complete and certainly not consistent.

Is that OK? Isn't it more important to concentrate on the subjects to be managed than dwell upon the subject of management? Mmmmm…. What follows is for those who think the subject of management is at least worth 5 minutes of their busy day or at least a management system suitable for agencies.

Working closely across a range of agency disciplines has led me to conclude that the critical 'do well' of agency business is something really rather prosaic, and a long way from any whiff of smoke and mirrors - it's simply the proper management of jobs. Drilling down on this exposes the three elements that make up this competence: On Target, On Time, On Budget.

Let's begin at the beginning - of the life of an agency. Almost all were established by individuals breaking away from larger established operations, with a driven belief they could do it themselves and do it better. Better for themselves and better for their future Clients. In that formative period, the hero subject is all about being on target - for strategy and creative solution.

On time is something of a given in an agency with client or media deadlines a constant reality. Being late is unthinkable. But doing the work at the last minute is not. It can appear macho. And who was it who said "Nothing concentrates the mind quite like being executed in the morning"?

That leaves us with on budget. This seems to cause more confusion than it should and is certainly the Achilles heel of many agencies. It doesn't just mean invoicing the same figure as quoted; it's about the costs absorbed by the job and the profit margin that is retained. What almost any agency can do is strengthen this third competence.

If you were inventing a business for reliable profitability, you wouldn't immediately come up with the agency model. Uneven new business flow, rising client churn rates, projects replacing retainers, large amounts of expensive fixed costs waiting around for jobs to absorb them.

An outsider looking into an agency would quickly conclude that key to its management system will be the strengthening and balancing of its direction and control mechanisms. These are the two critical components of any management system. Like Laurel & Hardy, they are a double act. One's no good without the other. But most agencies have poor development of one, if not both, of these parts of their management system.

Direction-skewed systems are much better at describing destinations than journey planning and rarely stop to check the map en route. Control-skewed systems are effectively trying to make the journey to an uncertain destination by looking in the rear view mirror.

So how do you know whether you have a problem? Well, there are effective system audit tools, but the classic symptom of weakness or imbalance is increasing use of the 'O' word - Over-servicing.

This term is reminiscent of the state of medicine in the Middle Ages. Everybody died of either the ague or the plague (or a surfeit of lampreys, if you could afford them). Until medicine could better define the illness, it couldn't do much to improve the treatment.

In agency life, there is a sense that applying the label "over servicing" to poor profitability is somehow to shift the burden of responsibility into a limbo land between the agency and client. This may make people feel better, but it doesn't help to find a genuine remedy.

So rather than being Laurel or Hardy, agencies that get to grips with over-servicing by strengthening both their direction and control mechanisms can be Laurel and Hardy - which should avoid it being another nice mess you've gotten into.

Naming:

A rose by any other name

Little nuggets of information can be a joy. For instance, what speaks more clearly for the predominance of Scandinavian countries in the development of mobile marketing than the name of the mobile/computer link, Bluetooth. Nothing more complicated than the Danish king who long ago united Denmark and Norway - not itself a long-term success, of course.

The real Danish name, Blaakstad, sounds rather like one of those sausages you are offered when eating overseas made of all the inedible bits of everything else. So perhaps it was fortuitous that the English translation was such an engaging word.

Separately you may seen in the press that agency HHM changed its name to The Nursery, the result of both internal and consultation (via the internet, no less). This was stopped in its tracks by an existing business of the same name and so the name had to be changed again - to Crayon. Fortuitously, the original graphics associated with The Nursery featured crayons - and there is now a feeling that Crayon may well be a better name anyway.

This sets one thinking about the issue of naming itself. How many of us have not at some stage agonized over a name for our business, whether be it a start-up or a 'refreshment' of the brand or a total re-branding? The time this sort of exercise can occupy can all to often seem endless.

Perhaps what the above stories suggest is that we should dwell rather less on the meaning of a name, and concentrate more on its utility. As long as it is not (immediately) offensive, misleading or dull (by far the most disastrous), the choice of name is important than the creative or whatever name is arrived at. So next time you're seeking to come up with that new cut-through branding, quickly choose a normal word/name that you like (no-one has used one of my favourites, crepuscule, yet). Don't agonise over the choice. Just do it - and then brainstorm what you can do with it. Rather like being given a product to market, really.

BULLETIN
RESULTS INTERNATIONAL

GLOBAL BUSINESS ISSUES FOR
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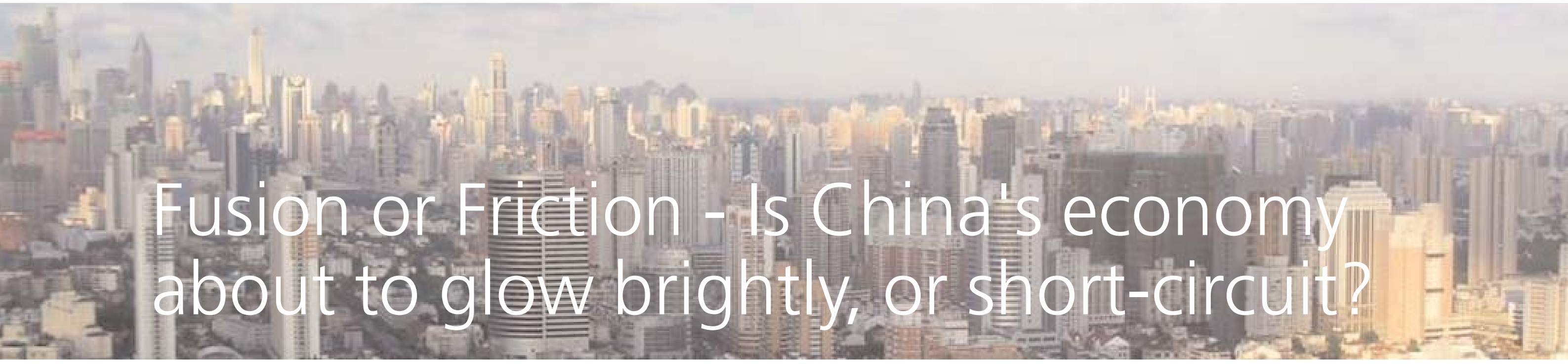

Fusion or Friction - Is China's economy about to glow brightly, or short-circuit?

With Results' regional marketing summit taking place in Shanghai in November 2005 and current and on-going interest in China rising, it is a good time to review the economic outlook and see how brightly the future glows.

Why are analysts concerned about China's economic growth?

In a recent article, the Financial Times likened the size of the Chinese economy to that of Italy - still small in comparison to the economies of G8 countries such as the US, but with the potential to match Japan by 2015. Along with the motivation to catch-up to more mature markets, factors that are contributing to China's rate of economic growth includes a large, cheap labour force that is eager to make the leap from agricultural worker to manufacturing employee, political stability and a government open to the concept of capitalism, albeit in a communist shell.

That said, compared to earlier growth in other Asian tiger economies such as Japan and Korea, GDP per head in China has seen a slower rise. So why have the world's financiers taken up the mantra of "Apply the brakes"?

The concern about China's growth rate is that its advance stems from an unbalanced economy, where government approval is easy to get for investment in infrastructure, manufacturing and property, even if the prospect of a return is not guaranteed.

In 2003, investment accounted for 42% of GDPand this percentage is estimated to have risen higher in 2004. Investment in infrastructure and exports are the economic drivers for China, rather than the domestic consumer market. While the Chinese consumer eventually benefits from big business, there is a lag before consumption rises as a direct result.

The China Economic Quarterly, published by Access Asia deduces that, based on investment levels in 2003 and 2004, economic growth should be good during 2004 and 2005. In 2005, there has been a cooling in the rate of investment, which means growth is predicted to fall in 2006. Another factor in China maintaining investment growth is the preparation being undertaken for the Olympic Games, to be held in Beijing in 2008. With the importance placed on this event and the potential for instant global recognition, it could be another three years before a downward correction in economic growth is seen.

Are they right to worry?

While China watchers are sounding alarm bells over the volume of investment, there are those on the ground that believe that the Chinese government is more than capable of managing development, while continuing to attract foreign investment.

Miles Young, Chairman of Ogilvy & Mather Greater China says, "the Central Government is very aware of the issues [affecting China's economy] and more than most governments, has the power to control [their effect], maybe not perfectly but quite well. Certainly the last ten years of fairly consistent growth would back that up. China's vast resources mean that it can continue to feed the demands required by investment for a good many years to come. The Chinese are renowned for their long-term outlook, as befits a nation with such a rich and extended history. As one Chinese proverb deftly illustrates, "One generation plants the trees, another gets the shade."

A government objective is to create a transportation hub that connects the remote interior (as yet, barely touched by progress) to more mature coastal areas. Investment funds help build the country's infrastructure, which provides access to resources for fuelling China's low-cost manufacturing engine. This in turn satisfies foreign demand for cheap manufacturing costs and more importantly, ensures years of employment for its vast population.

What are the main causes of concern for the global market?

Of course, despite the optimists, there are causes for concern that could have a negative effect on China's economic balance. Investment is spiralling upwards with little control. Free lending by banks means that non-performing loans are a big issue (officially the level of NPL's is at 20% of GDP, but is estimated to be closer to 45%). Credit growth doubled last year. Coastal conurbations are experiencing artificial growth in the property sector caused by wild speculation and there is high unemployment in the interior.

The level of untrammelled investment

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Fusion or Friction

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points to a huge waste of capital, a fact backed up by the non-performing loans, which are mostly tied up with unprofitable state-owned companies. Corruption and poor management skills are exacerbating the problems resulting from over-capacity and stiff competition.

What is being done to neutralise these fears?

These issues are being addressed, despite the level of bureaucracy and the existence of guanxi, "connections with obligations", which hinder the government's reaction speed test the patience of foreign onlookers. Last year, the Chinese government targeted building and manufacturing industries by restricting investment in steel, aluminium and cement sectors. The amount of land released to developers was slowed. In October 2004, the central bank raised interest rates for the first time in nine years.

The resolution of credit growth and the reduction of non-performing loans are being addressed slowly. The Chinese government will stop bailing out state-owned enterprises by 2009, a practice that will rein in expansion (but may create more unemployment in the short term). In March 2005, a new chairman was appointed to the China Construction Bank in an attempt to clean up its corrupt image.

Measures are being taken to slow real estate prices. Property prices in Shanghai rose by almost 16% in 2004, a reflection of a nationwide property boom. Last April, Shanghai Housing Bureau passed a new rule that requires owners to pay off mortgages before selling property. Interest rates for mortgage loans of more than five years have increased. In another move to discourage property speculation, a 5.55% capital gains tax has been levied on property sales made within a year of purchase.

The devaluation of the currency in July 2005 will help control inflation and answer criticism from Western markets that the yuan was undervalued. The move by the Chinese government to link the yuan to a number of currencies is a cautious one that is likely to be part of a gradual change. Further revaluations are expected in the future.

What is the view of the Chinese government?

While foreign investment quite rightly concerns itself with factors that affect the global economy, the Chinese government is gingerly balancing between maintaining domestic expectations and international trade confidence. China's main concern is not whether its economic growth is faster or slower than last year, but whether or not it can keep the average Chinese consumer content.

Western protectionism on Chinese imports is a worry, but social unrest is a very real and sensitive threat to China, especially with unemployment rising steadily over the past decade. In 2003, 33 million people were jobless. The percentage dropped by just 0.1% in 2004 and currently stands at 4.2%. Urban unemployment is expected to rise in 2005 as workers migrate to the cities from the country-side, in search of work. Foreign investment is therefore critical to creating new jobs and opportunities and maintaining stability. In order for the promise of greater wealth to materialise in China, the lifeline of foreign investment must continue for at least another ten to fifteen years, to allow domestic consumption to grow to a point where it can sustain itself.

Ask any Chinese on the street what he or she expects from the government and the answer will be "to improve my quality of life". Proof that this is happening in second and third tier central cities such as Chengdu as well as coastal conurbations in China is emblazoned on every neon street sign from Shanghai to Guangzhou and beyond. The message is not so clear on painted billboards in smaller cities and rural areas in the provinces.

What are the consequences for the advertising and marketing industry?

So what does all this mean for the advertising and marketing industry in China? On the face of it, the continuation of foreign investment and resulting competition from domestic manufacturers will mean that companies will need to invest in consumer communications if they are going to secure markets for their brands over the long term.

Young and Rubicam use their proprietary research 'Brand Asset Valuator' to assess consumer profiles across the country. Angie Eagan, Vice President for its China office explains, "China is not behaving like a developing country but more like a mature European market, such as France. What this means is that there has to be a significant investment in differentiating brands."

Brand loyalty is a new concept in China and will take a while to sink in. The Chinese consumer is an avid saver, but when spending their hard earned cash, low pricing is still valued ahead of brand quality or recognition. This brand ignorance, coupled with aggressive market competitiveness ensures that margins are kept low. Brands that use branding to push market share to the consumer rather than price justification or product sector definition, have learnt the hard lesson that profits suffer. The battle for the consumer mind calls for strategy and tactics. Less than ten per cent of all marketing spend in China is from foreign companies.

Foreign products fare better with brand recognition than domestic ones, but to make a profit in China, companies cannot rely on awareness alone. Marketing strategies must use a variety of marketing channels to manage the sheer size and diversity of the market and to make the budget go further in a low-margin reality.

With branded goods now targeting fourth tier cities and rural areas, more clients are demanding direct marketing, in-store marketing, promotional activity, sampling and rural marketing as much as brand advertising. The development and delivery of agency services to include below the line specialisation units reflects this market practicality and is key to agencies' success.

Access to the indigenous consumer is where Chinese advertising agencies have the upper hand over foreign networks. For many global groups, buying local promotional shops to establish integrated operations has made the all difference to the bottom line. After a long struggle, China agencies are starting to turn a profit.

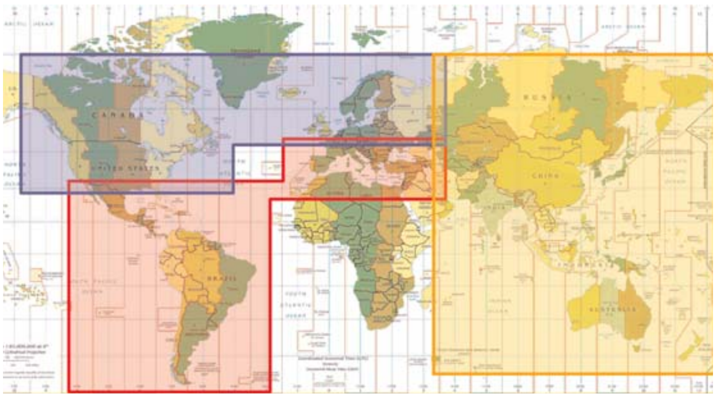
To register for Results' Shanghai Marketing Summit in November 2005, please indicate on page 11.

The Latin Region - more than just a continent

by Angel Riesgo, RIC Regional President Europe

The division of the world into business regions is really quite arbitrary; nobody can say that Europe behaves in a similar way, even after half a century of the European Union. A man in Seville and one in Hamburg do not have much in common apart from global products that are the same everywhere. Treating Europe as a region is history and geography, as it is in Asia.

The cultural alignments are, of course, marked by history, but even more by religion, time zones or climate. So, let's put a question mark against the accepted simplification of Europe, Asia Pacific, Africa and the Americas. Consider, for instance, the "new" administrative region created by multinational companies called EMEA (not least its meaning in my Spanish mother tongue) and seemingly always difficult to manage: Europe, Middle East and Africa are three areas with little in common items of plane distance, different cultures, standards of living, religions and consumer behaviour. This sounds a lot like a simplification of the world, very typical of global companies; EMEA actually means Europe and after this there is tacked on, at low level interest, Africa or the Middle East.



So what would be the logical regions of the world? Should we stay with the old continents or think twice and discover that the picture can be changing? My view is that it is changing. From the view of a "European Latino", the way to do business has more similarities between Milano and Sao Paulo than between Madrid and Amsterdam.

That is why Results is reviewing our own regions' to see if we can find more operative ones. The new configuration could be:

- The North West: English speaking North America, Northern Europe. (From Seattle to Moscow and from San Diego to Vienna)
- The South West: Latin language speaking countries of America and Europe and the Mediterranean rim Arab countries. (From Santiago to Bucharest and Mexico City to Cairo)
- The East including Asia and the Pacific Countries

As can be seen, the picture is simple and we anticipate that it will provide a more realistic way to do business.

Those with a passable knowledge of geography will have noticed the absence of Africa in this analysis. No slight intended, it is just a pragmatic reflection on its share of spend in the world. For the future, perhaps the Mediterranean countries will come with the Latinos and South Africa with the Anglo-Saxons (even if it does make a mess of the map).

Jumping for a minute to the region where I live and do business, the South West, nobody will say is the richest, nor the newest, or more populated, or indeed the fastest growing, but in many senses, I would suggest that it can be considered one of the main sources of culture, trends, foods, music and new behaviour in this interconnected world in which we live.

No one can say that a small and isolated country like Cuba is relevant in the advertising industry world; advertising is nonexistent in the beautiful island of the Caribbean Sea courtesy of the aged authoritarian, Fidel Castro. But at the same time, much of the music that makes the youth of Beijing or Moscow dance has roots in this island. The much criticized Spanish way of life is affecting the British, who a few years ago discovered the Mediterranean diet and the wine that is the base of our culture and behaviour. Now the new step is immigration; the south of Europe, from Portugal to Cyprus is receiving a new kind of immigrant. These are not coming to find work; they already did their stint in their own countries. They come to live in the south, taking advantage of the global economy and trying to adapt to the Malaga or Malta way of life.

Times are changing and the influence of the "Latin" in the new world is very relevant indeed.

In business, steps are been taken. Italy, Spain or France are the main investors in Latin America. The risks in these economies are more commented on than the profits the companies have generated there - ask Renault or Telefónica, Fiat or Repsol; in all cases, a very substantial part of their profits come from these "risky" markets - and keep being so year after year. It remains true that the US looks to "its" south and sees an owned land. And it is true that the influence is huge, but the culture, is more similar to the Mediterranean world than to New England.

The small frontier questions of our new global division would be the US Hispanic market or France with that mixture of North and South. Both territories can be kept by our friends in the North, we have concluded, while we try to understand and produce value in the agencies of the South. The Andalucians in Spain used to remind us, the northern Spaniards: "El Sur tambien existe" (The South exists as well). In my mind, the idea is clear. This world would be different without the Latin culture, different and all the worse.

Central Europe - the path to progress

IIf today you take one of the many budget flights to Budapest, Warsaw, Prague, Tallinn or Riga, you will see modern buildings and elegantly restored streets, which would not look out of place in any west European capital.

The marketing communications industry, like the streets, has come an extraordinarily long way since 15 years ago when many of the ab ove the line groups rushed into the region to serve their FMCG clients after the fall of communism.

At that time, the agency groups were faced with the host of problems normally associated with emerging markets, whilst at the same time trying to start a business and, in fact, a whole industry from scratch. The result was poor financial performance, in many cases heavy losses, and a hangover lasting several years. This for some time gave the region a bad name as a place to invest and do business. So what has changed to make the area such an attractive current proposition for marketing communications companies?

One reason the region did not fulfil its original promise was that many consumers were unable to afford the western goods offered and therefore advertisers were not given large budgets to advertise and pay their agencies. Much has changed in this regard, with the region now posting high rates of GDP growth compared with the west; incomes levels have already reached around 50% of the EU average. In neighbouring Slovenia, a heady 69% has been achieved and the trend is set to continue.

Early pioneers were also hampered by a shortage of skilled staff. Advertising was completely new to the region and therefore agency groups were forced to rely on expensive expatriate staff, who for the most part had little local knowledge. Investment in training locals was often 'rewarded' by them being very quickly lost to a competitor at an inflated salary.

But the burgeoning supply of enthusiastic and well-educated young people has gradually eroded this problem, to the extent that local staff not only now occupy most of the senior positions in agencies, a number have also been promoted to work outside the region in other parts of international networks. Professional organisations and awards ceremonies are also now fully in place to ensure high standards continue.

Another daunting issue for the early agencies was that media pricing was around 20% of western levels. As a result, the downward pressure on commission rates on international contracts made the local business model unworkable, particularly with the added cost pressures caused by the use of expatriate staff.

Currently, advertising market growth rates in Eastern Europe ranks among the highest in the world. Media prices are now around 50% of western levels and there has been a considerable improvement in quality,. as western media owners have taken advantage of opportunities to expand into the region. There are now a wide variety of advertisers including many local companies and service organisations, and not just the large international FMCG businesses.

Another factor playing havoc with the cost structure of the early agencies was the combination of weak local currencies and high inflation. This was exacerbated by political risk, as there was always a perceived threat that these fragile economies with many losers and few winners could, in the early political change, flip back to their communist past. With inflation under control, membership of the EU and with the likelihood of Euro entry in just a few years, the local currencies are now much stronger.

For the economies of the new EU entrants, such as the 'tiger' economies of the Baltic States and Hungary, Poland and the Czech Republic, all of whom have embraced the free market strongly, much of communist era has been despatched to a distant memory along with the smoky Trabant cars that once adorned the streets.

High levels of bureaucracy and taxation also hampered those early businesses. This included, for instance, a 'fiendishly difficult to calculate' revenue tax on media companies in Hungary to help finance the public deficit.

Changes brought about to encourage business and as part of the negotiations to join the EU have improved the region as a place to do business. Investments in IT and infrastructure have also enabled the region to enjoy a leapfrog effect over some of its western counterparts.

Those early agencies have, however, realised some gain from their past pain - in most cases they now have strong, profitable brands that rank among the regions market leaders.

As for the future, economic growth is likely to continue at above EU average levels, but at a steadier rate than the recent boom. EU spending in areas such as construction and agriculture will also bolster growth. Media prices and advertising spend have still some way to go to get to western levels and this convergence is also likely to continue. The increasing sophistication of the marketplace will present further opportunities particularly in the more niche areas such as below-the-line marketing, technology and healthcare.

So, if you think your agency may benefit from a presence in the region, the party is far from over - you may just have missed some of the headaches.

ABOUT RESULTS

Results is an independent business consultancy providing wide-ranging advice on the creation, development and realisation of value for businesses in marketing communications.

It has consultants providing a depth of experience across all aspects of business advice, supported by associates with similar skills and a global network, Results International, covering over 40 countries. Our senior consultants are:

Graham Beckett: CEO. Previously MD of Golley Slater & Partners, London.

Tony Bond: Senior Consultant. Previously Group Finance Director, The Brunning Group plc, and Deputy FD at Collett Dickenson Pearce.

Jim Surguy: Managing Director, Results Business Consulting. Previously MD Lonsdale Advertising, Deputy Chairman KLP, and a director of McCann-Erickson, London.

David Blois: Consultant, Central & Eastern Europe. Previously Commercial Director for Saatchi & Saatchi in Eastern Europe.

Caroline Johnson: Senior Consultant, UK. Previously Director of ARC Advertising and Founding Partner of The Johnson Day Partnership.

David Lee: Consultant, previously with BBDO/DAS/Omnicom and CDP Europe/Dentsu.

David Miln: Senior Consultant. Previously Business Development Director at Saatchi & Saatchi.

Gerald Wright: Senior Consultant. Previously Chairman of Lintas London; latterly Regional Director Central and Eastern Europe.

John Oldfield: Regional Consultant, UK. Previously, principal of Charles Walls Group in Leeds; currently Membership Director of the IPA.

Angel Riesgo: Regional President, Europe. Set up a consulting firm, Consultores de Publicidad, after over 10 years with Bates, ultimately being general manager of the Regional Network and a main Board Director.

Andrew Kefford: Regional President, Asia-Pacific. Set up his own consulting firm, Advertising Advisory Centre in 1991 after 16 years with leading advertising agencies in the region, primarily Ogilvy & Mather.

Flavio Correa: Regional President, Latin America. Formerly Chairman, Ogilvy & Mather Latin America; currently involved with the Association of Brazilian Advertising Agencies..

Sara Fielding: Director, International Consulting. Founded her own consulting firm, Adarco, in Thailand, after working in client service in multinational agencies including Leo Burnett.

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Angel Riesgo (Europe)	+34 (0)9 1 702 11 13
Flavio Correa (Latin America)	+55 (0)11 3815 4903
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Guest article:

The healthcare headache

by Tony Yates, Chief Executive, PAN Communications, a Partner of the Indigenus Healthcare Network

A few years ago when consumer advertising was in the doldrums, the healthcare sector, with its steady growth and healthy profit margins, appeared irresistibly attractive.

Many large agency networks reasoned that applying the successful consumer model of one central campaign that can be sent to satellite offices to top-and-tail would not only open the doors to a new, lucrative market sector for themselves, but also prove to be hugely beneficial to pharmaceutical clients by reducing promotional costs and providing a single, co-ordinated identity for their product.

However, in practice, applying the consumer model to the healthcare environment has not been the universal panacea that many supposed. Healthcare markets are often far more diverse than the consumer equivalents and therefore core campaigns are more of a guide and a resource that then need to be adapted to the different practice of medicine, commercial structure and regulatory environments in the US and European markets.

It would not be unreasonable to suppose that the practice of medicine would be relatively uniform across markets. Nothing could be further from the truth. If you have a chest infection in the UK, you will be given a short course of a tried and trusted generic antibiotic - just enough to see you through. In Italy, you will get an injection of a powerful antibiotic. In the UK, if the first course didn't work, you would go back and get a slightly stronger prescription. In Italy, you would go to a different doctor and tell your friends the first wasn't very good. You may therefore be selling the same drug with a number of different messages - cost-effectiveness in the UK, speed of action in Italy, lack of side effects in Norway.

The second major difference is the payer. In Europe, it is mainly governments and in the US, it is mainly patients. In the US, marketing healthcare is as much about driving patient demand as convincing physicians of a medicine's merit. Asking for a particular brand of medicine in the UK is more likely to result in you being given something with an exceptionally high level of gastro-intestinal side effects!

Finally, there are the regulators who control what can be included in promotional material. Each country, even within the EU, has different rules for what can and cannot be claimed. These rules are broken at the marketing company's peril. In the UK, promotional material has head-to-head comparisons with the competition. In Germany, comparisons with competitor products are not allowed. Promotional materials, although based on a core platform, have to be tailor made for every single market.

So, if you can't have one core campaign administered from head office, surely you can overcome these differences by having specialist healthcare agencies set up in each market? This is certainly true in theory, but hard to put into practice. It can be difficult for the big networks to acquire successful independent agencies and when they do it can be a struggle to keep the key people on a long-term basis. The transition from being a small independent agency to being owned by a large network can be difficult and many experienced personnel leave to join rival agencies or to launch new independents.

Developing a successful agency from the ground up is no easier. As experienced healthcare agency bosses know, the growth-enabling step is attracting the right talent and keeping it. There are shortages of account handlers with pharmaceutical industry experience and good medical copywriters are rarer than hens' teeth. It is surprising then, that network owned healthcare agencies in Europe often shed their staff when accounts are lost only to find there are no quality candidates available when a new account is won. This hire and fire approach works in the US market because everyone does it and a talent pool exists. In Europe the independents pick up the talent as it becomes available and hang on to it.

From a client perspective, so far only a few pharmaceutical companies have been convinced of the value of hiring the same healthcare agency in every market. It is important for the global agency to have input from all the major markets, but for local implementation, the best agency available, selected after a pitch, is the standard procedure. The global agency's local office is usually included in the pitch, but can even start at a disadvantage. Most global agencies privately admit that the quality of local offices is variable. None would claim to have the best available agency in every market. In addition, the local marketeers don't want the modifications they need to make to tailor the global campaign to their own market being reported back to global HQ behind their backs.

Although it has been problematical for the global networks to develop top healthcare agencies in the key markets, this does not mean that pharmaceuticals cannot be promoted on a global basis. In many markets, the top healthcare agencies are independent but this does not need to be a limiting factor. It appears to be easier for leading independent agencies to join together to form a network than it is for networks to create leading agencies. This concept of the independent agency network was successfully done in the past by Healthworld, and there is no reason why it cannot be done again.

As consumer markets regain their shine, the big networks will focus on what they do best. The fact that healthcare is a different world may have been a bitter pill to swallow, but the prognosis for a healthy future where separate networks run on healthcare, not consumer rules, looks good.