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THE BIG ISSUE:

## Is this as good as it gets?

Few Agency owners are rubbing their hands with glee at the prospect of a boom, but that is probably what we are "enjoying" in the post dotcom and 9/11 era. Life is a dichotomy. On one hand we face a greater combination of threats in the world than current generations have previously experienced - terrorism, huge fiscal imbalances, particularly between the US and Asia, overcapacity and fierce competition, global warming, steep rises in energy costs, and political ineptitude. Despite these uncertainties, we are experiencing long term economic stability as the developed world appears at last to have tamed inflation.

This results in a relatively low interest rates and a benign investment climate, which may differentiate the present boom from many others we have experienced over the last 60 years or so. This might not feel like previous booms, but maybe it won't feel quite like a bust either when the present cycle runs out of steam, presumably around the turn of the decade, as has been the case as long as most of us can remember.

Thus whilst many agency clients are slogging it out with their competitors and placing their procurement people in the frontline of the battle to contain costs, they are also having to work their marketing budgets harder (and even having to increase them). All of which presents threats for some and opportunities for others.

Meanwhile we are seeing a major resurgence in M&A activity in the industry, reflecting record levels of corporate activity generally across the globe. Global M&A levels have risen 30% in 2005, according to Thomson Financial. Banks are falling over themselves to lend cheap money. Progressive businesses responding to investor pressure for growth are readily persuaded to invest in acquisitions. Private equity players exploit banks largesse to highly leverage the increasing funds they are given to invest on behalf of our pension funds, as they seek better returns than the relatively modest earnings available from equity markets.

All of this is at least as true for our industry, if not more so. M&A in marketing communications is additionally fuelled by a number of

factors. The easy investment climate has fuelled the entrepreneurial passions of a variety of managers who believe they can see their moment of glory (financially at least). These players are aggressively pursuing their visions by forming endless new ventures across the spectrum of the industry, backed by IPOs (mainly AIM in the UK), private equity and debt funding. The pace of industry change is also fuelling investment. The coming of age of digital agencies and related media and data services, fuelled by the widespread availability of broadband for on-line information, entertainment and shopping (up from 4% to 17% of Christmas shopping in 2005), has created a major disruptive force to traditional channels of communication. New marcoms services are rapidly emerging to meet clients changing needs, creating pricing power for some and dermining it for others. Change of this

## Quote, Unquote

"Management is doing things right; leadership is doing the right things" Peter Drucker

1910-2005

# How to get into debt .... and why

There are several surprisingly good reasons why marketing communications businesses might want to get into debt. Historically, debt finance was limited to financing operational needs such as working capital, property and other fixed assets. However, ambitious companies are now increasingly using debt finance for strategic purposes - to finance acquisitions or other key growth driven investments and to enable shareholder recapitalisation.

A few banks still operate this way, but thankfully there is now a plethora of financial institutions offering an array of debt-based products on much more sympathetic terms. The main problem now facing the busy Finance Director of an SME is finding a way through a myriad of options to get the best deal.

## *The Three C's*

The financing requests that are most attractive to lenders still achieve the best terms so it should be remembered that most lenders assess proposals by looking at the 'THREE C's':

*Collateral* - what security can you offer the lender in the form of assets or guarantees,

*Cashflow* - what is your ability to repay the debt as supported by the historic and projected cashflows of the business?

*Credit* (character) - what do the credit agencies say about the company and what is its record on paying creditors?

## *Types of Debt Finance*

Whether for strategic or operational reasons the main types of debt finance remain largely the same. For small and medium sized companies the key factor in determining the level and type of debt to be raised will be the security that can be offered. And for most companies that will mean debt secured on debtors, property or other fixed assets.

If using debt to finance an acquisition,

the assets of the target company can also be used to secure the debt providing certain procedures are followed to avoid falling foul of regulations designed to protect creditors.

## *Debtors*

For most Marcoms companies the biggest financing opportunity is likely to be the funding of debtors. The most common forms of financing debtors are either accounts receivable factoring or invoice discounting. Both methods can be very flexible and competition amongst providers means that rates are very competitive. The arrangements may be confidential or open.

The key statistic in choosing a debtor financier is usually the per cent advanced against debtors. Some claim to advance up to 90%, but this is always against 'approved' debtors so it is vital to understand what a lender means by 'approved'. Invoices for advance and stage payments may be problematic.

## *Property*

If you want to secure debt on long leasehold or freehold property, you are in luck as the competition amongst lenders to provide commercial mortgages is currently red-hot. Even if you currently have a commercial mortgage or other loan against your property, it is worth considering a re-mortgage to get better terms.

Aside from the major banks there are a growing number of secondary and tertiary lenders that focus purely on commercial mortgages. Many of these lenders are accessible only through approved intermediaries.

## *Fixed Assets*

Your expenditure on fixed assets may not be huge. Nevertheless it is worth exploring the debt financing options.

Leasing is the most popular form of financing for fixed assets and has the benefit of preserving cash and credit lines for the day to day running of the business and to cope with unexpected or unplanned problems.

*'Buy that which appreciates, lease that which depreciates'* J.Paul Getty

An expanding number of suppliers offer leases that can be structured in a myriad of forms. It is often best to seek independent advice before choosing a lease.

Some of the features to consider are:

- Is the lease for a fixed period or open ended?
- What is the timing of the payments?
- How are residual values treated?
- Is there an option to purchase the asset at the end of the lease?

## *Mezzanine and cash flow loans*

For some larger companies, further options exist in the form of mezzanine loans. In these situations, the lender is relying on the company's cash flows as the principal means of repaying the debt. As such, the lender will need to see a strong track record of cash flow in the business and will need a healthy margin to cater for unexpected fluctuations.

Such debt is more common for financing acquisitions or recapitalisations with an equity injection, because full due diligence will have been done on the target and a market price established for the business being bought.

As a means of finance, debt may be used on its own or in conjunction with an equity injection. Indeed, the latter will give the lenders great comfort and help secure a better debt package. Alternatively a company with strong credit lines will be in a stronger position to negotiate an equity injection.

So debt finance is a highly relevant tool for the growing business and the proliferation of providers means it is more available than ever before. But the increased number and complexity of offerings make it more worthwhile to obtain independent advice on how to get the best deal for your company.

*If you would like to discuss how to get debt finance for your business, please indicate on page 11.*

Editorial:

## My space

The pace of change in the digital arena has been exciting, but for most people not deeply embedded in it has also been more than a little confusing. From manufacturers and producers, through marketing and sales departments to the end consumer, it is apparent that everyone is still trying to optimise this elusive space in terms of how to use it and its long-term place in the media & marketing landscape.

Perhaps getting the most coverage currently is search marketing. That search is pervasive is a truism of digital use, but hands up all those sick of intermediate sites, from where you get passed from site-to-site until your patience runs out. Ironically, when all the talk is of the empowered consumer, search provides a targeted way to bombard the consumer with messages. Interestingly, users have already started fighting back against this sort of intrusion through the use of communities, effectively affinity groups with a common set of interests and viewpoints. These communities define their own space and set their own rules on all aspects of their digital use.

At least in theory. The recent purchases (amongst many) of MySpace by News International and Friends Reunited by ITV show traditional media groups have responded. The really fascinating aspect of this is how these communities will react to how their 'owners' (in principle not a concept they would embrace) use their 'space'.

And what a challenge for marketing. How to provide messages that are user-friendly to the users and effective for clients. Success could be invaluable - though you shouldn't think that this is a... at the usual

Strategic consulting

## New Year's resolution

Our 'good intentions' as we approach another New Year can be applied just as much to our business goals as our physical health. Every business manager will have a list of improvements and changes waiting to be developed and implemented that can just keep rolling forward.

Chances are that the ability to prioritise and deliver what your business requires when it requires it is a management skill that is being eroded by the day-to-day pressures of demanding clients and challenging margins.

We have all heard about the need to separate the urgent from the important, but today's business climate makes the demands of day-to-day business management a 'now' activity and the longer term improvements a 'later' item. Yet the strongest and most successful businesses across all sectors seem to achieve a better balance between servicing clients' needs and building the pillars of the business.

*So what is the secret?*

One way of addressing critical issues is to learn how to prioritise your own business's needs and separate the 'luxury' items from the mission critical. We can all get in a cycle of repetitive behaviour, rushing from one meeting to another and one pitch to another without creating the space to address our own businesses needs and longer

term planning opportunities.

A proven method for re-aligning your focus is through undertaking a one-day corporate positioning workshop. Such an approach uses prioritisation techniques and tools to help formulate a clear and rewarding way forward.

This could be the right time for you to utilise the renewed vigour of the New Year to reduce many of the tasks that have no hope of being achieved, but instead, commit to taking the fundamental step changes that your business requires to move forward.

Many successful businesses can look back in time and with the envious benefits of hindsight pinpoint the initiatives that took them to another level.

Creating the space and quality time to agree these transitional items and committing to a programme of delivery means that each initiative not only makes a lasting impression on the business, but is part of a joined-up strategy.

It requires management focus in the areas of destination, decision-making, drive, discipline and delivery and there can be no better time to start this than in the New Year. So harness all those good intentions and start putting them to good use for your own business success.

*For more information on Results corporate strategy workshop, '7 Steps to Heaven', please indicate on page 11.*

## Is this as good as it gets?

Continues from page 1

# Search for new M&A targets

By Seth Albert, AdMedia Partners, New York

Anyone who reads a newspaper knows that search media (Google, Yahoo!, MSN and AOL, in that order) have been big news in recent years. Essentially, the search media offer textual advertisements that appear along with search results. The ads are purchased to appear when users enter specific search terms and are sold to the highest bidders based on what they are willing to pay each time a user clicks on one of their ads.

Search is hot because these ads work - they reach users at exactly the moment they have demonstrated an interest in the topic that causes the ad to appear. That is what is driving projected growth in European spending on search media and related services from €856m in 2004 to €1.4bn this year and almost €3bn in 2010, according to 'Europe's Search Engine Marketing Forecast, 2004-2010', a recent study by Forrester Research.

As search advertising has grown in importance, it has become increasingly complex for advertisers to plan, manage, measure and optimize their search advertising campaigns. Just as interactive agencies were started in the mid to late 1990s to assist marketers in creating, managing, and measuring banner advertising campaigns, a small horde of companies, generally referred to as search engine marketers or SEMs, has sprung up to service the needs of advertisers seeking to exploit search media.

These companies are making a living because search is becoming a fundamental part of the media mix, complemented by so-called natural search, or search engine optimization (SEO), techniques for getting a website to appear as high as possible in search results on the key search sites. Full-service SEMs provide both paid and natural search marketing.

As in the history of the interactive agency business, there has been a series of buyouts of SEMs that began in earnest in late 2003 and which seems likely to continue in 2006. From a valuation standpoint, SEM companies have fallen into two groups: special and ordinary. In addition to good financial characteristics, proprietary technology is a key differentiator between the special and the ordinary SEMs.

Sophisticated search marketing today is a very complex affair. Campaigns can involve selecting many thousands of key words and phrases, setting bid values and placing the ads on multiple search sites, tracking the

Aegis Group, acquired iProspect, a leading US SEM with a proprietary bid management tool that was used internally. This transaction presaged additional SEM acquisitions by traditional media companies, including Omnicom's acquisition of Resolution Media in November 2005. In the US, few independent SEMs that we would characterize as special remain, so it is reasonable to expect that those that choose to sell will continue to enjoy high valuations.

The ordinary SEMs are smaller, less profitable, slower growing, have less important clients and tend to lack strong underlying technology or other unique capabilities. Typically, these companies utilize technology licensed from other providers or rely on limited technical capabilities and a lot of essentially manual labour to manage campaigns. Buyers have most often been private or microcap public companies. For this group of companies, valuations have typically been rather ordinary: 1 to 2 times trailing 12 months revenue; several transactions involving these kinds of sellers can be expected in 2006 at similar valuations. This table shows some representative transactions that occurred for these kinds of SEMs.

Date	Seller	Buyer	Value \$m [1]	Revenue multiple [2]
<b>High Value SEM Transactions</b>				
12-03	Go Toast	aQuantive	\$17.7	5.1
05-04	Performics	DoubleClick	\$64.0	5.0
08-04	Decide Interactive	24/7 Real Media	\$33.5	4.0
12-04	iProspect	Aegis Group	\$50.0	4.2
<b>Other SEM Transactions</b>				
07-04	MarketLeap	Digital Impact	\$4.1	2.7
07-04	SendTraffic	Traffix	\$12.4	1.2
10-04	Traffic Leader	Marchex	\$7.5	1.4
12-04	Proceed Interactive	CGI Holding Corp.	\$7.9	2.2

[1] including earn out potential  
 [2] estimated where no publically available data

performance of each key word or phrase for each search provider and by day part and other factors, modifying the key words in the campaign based on performance, and reporting results. For large campaigns, this is a huge undertaking that is impractical without the assistance of technology.

The special SEMs generally have strong underlying technology that gives them proprietary advantage. In addition, they are growing fast, have desirable clients, and have good-to-strong margins. Buyers have been larger companies that can leverage the proprietary technology in addition to taking advantage of the accompanying service capability. For this group of companies, transaction values have been 4 to 5 times trailing 12-month revenue. In one of the noteworthy transactions among this group, a traditional media company,

As search continues to evolve, new opportunities and challenges will arise in the SEM business. There are already opportunities to improve on today's bid management tools via more effective user interfaces or more powerful management capabilities. As one example of the latter strategy, Efficient Frontier claims to take a portfolio management approach to managing campaigns and to be able to create and manage campaigns of 500,000 or more key words.

In addition, as search media becomes more specialized with local, shopping, vertical and other specialized media, we expect new tools and service providers will arise to address the new opportunities and challenges that are created.

With this in mind, expect SEM to be

# The right time to sell?

We are often asked by UK vendors "when should we sell?" Market conditions are certainly favourable for the well-prepared marcoms business; 2005 has been very active and prospects remain good for 2006.

A vendor is faced with an increasingly wide choice of options as new players enter the buyers' market place. The successful AIM market and a growing interest from private equity investors have also fuelled this, as well as interest from US and Far Eastern corporate investors. A baffling choice for some vendors!

We are probably heading towards the midway point in the economic cycle, which is generally seen as an optimum time to sell a business, with economic prospects remaining good for the next 3 to 4 years. This should yield healthy returns for an investor and help the vendor in maximising any earn out.

Despite the slow down in consumer spending in 2005, stock markets have

posted strong returns during 2005. The scope for a consumer led recovery in 2006 can only help the marcoms sector, which many institutional investors view as a growth area.

Leaving aside the favourable macro climate, it is crucial to get the timing right for an individual businesses life cycle as illustrated in the simple

business life cycle graph.

A decision to sell midway through the business growth curve is likely to provide the optimum circumstances for a premium priced deal. Here, the buyer can be reassured by a good track record of consistent profitability and growth and evidence that there is a sound growth strategy in place. It also enables the newly acquired

business to get off to a good start, promoting a favourable relationship with the buyer.

A *simplified* hypothetical example indicates how much better off a vendor could be in this scenario.

Selling at top of company's life cycle:

Pre-tax profits £900k, multiple of 5 = initial value of £4.5m  
 Earn-out based on multiple of 6 for average profit growth of <10% over three years, nil/low growth = zero payout.  
 Total consideration: £4.5m.

Selling at mid-cycle:

Pre-tax profits £600k, multiple of 5.5 = initial valuation £3.3m.  
 Earn-out multiple of 6 on average profits for 20% growth over 3 years.  
 Total consideration: £5.2m.

The early bird .....

*If you would like to discuss 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
<b>UK:</b>			
D	Sale	Specialist interior design consultancy, £1m+ pbt, international clients.	41/9201
PR	Sale	Classic consumer PR agency. Central London, £400k pbt.	41/9210
INT	Sale	London-based B2B consultancy, good margins, £900k pbt..	41/9213
PR	Sale/merger	Specialist technology PR consultancy, £400k pbt.	41/9217
D	Sale	Premier league brand design consultancy, £650k pbt .	41/9212
D	Sale	Very high-growth, high tech agency. £1.5m pbt.	41/9216
PR	MBI	Integrated retail-focussed regional agency. £700k pbt.	41/9189
<b>International:</b>			
MR	Sale/merger	Large, US\$ 16m revenue.	41/89
INT	Merger	Central Pncy wishes to merge.	41/91
NM	Sale	Online meer, in Eastern Europe.	41/92
PM	Sale	Large Parisg Agency.	41/
AD	Sale	Large Group.	41/

AD=Advertising; D=Design, D=Design; DM=Direct Marketing; F=Field Marketing; INT= Integrated; NM=New Media; MR=Market Research; PM= Promotional Marketing; PR=Public Relations; PRH=Public Relations Healthcare; RES=Research

Conditions:

- 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.
- 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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# Getting your head round neuroscience

Peter Laybourne and Dr David Lewis

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 reassess 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, aiding 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 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 technolog... 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 new-found 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 be robust enough 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.

The benefits over traditional research are that 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 - 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, 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,



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



## Shanghai surprise

Disembarking at Shanghai's Pudong airport to complete necessary forms and navigate snaking queues to get past customs and immigration halls hardly prepares you for what must be the best value adrenalin rush anywhere in the world.

For the equivalent of US\$5, you board the Maglev train to the city. No sooner are you seated than it hums into life and taps its magnetic power source to reach a top speed of 430 km per hour. The fastest you'll ever get to travel on solid ground - unless you attempt the world land speed record.

You hurtle across fields of sprouting Chinese broccoli, past the traffic and burgeoning suburbs towards the shiny new metropolis that has been built in less than a decade. The fact that the 18.6 mile trip lasts just 8 minutes takes a while to sink in; it feels disappointing that the experience didn't last longer and take you further. Perhaps the same could be said of the conclusions from Results 6th Worldwide Marketing Conference, held for the first time in Asia, in Shanghai on 1 November 2005.

As one of the fastest growing advertising markets in the world, there is much to absorb about China. Like the Maglev train, the speed at which the foundations of industrialisation have been established is palpable, as the Chinese embrace their own Confucian version of capitalism. While there is more to build before the marketing communications industry in China can offer a seamless service, the excitement, enthusiasm and passion

for the market more than makes up for that. One day in Shanghai doesn't do justice to the effort and achievement of the marketing services industry in this part of the world.

Topics covered were: Michael Birkin, Vice Chairman - Omnicom Inc. set the scene on how to prevail in China. Pivotal consumer and business perceptions were shared by Tom Doctoroff, CEO Greater China/Area Director North East China - JWT, Joseph Wang, Chairman - Ogilvy Shanghai/Southern China Vice Chairman - Ogilvy China and Neil Hardwick, CEO China - Publicis Worldwide. Praveen Kenneth, Co-Chairman and Managing Director - Law & Kenneth Worldwide highlighted ten learnings from India, a large and diverse market.

Michael Birkin: The Future of Marketing Communications in China. China is in the centre of an extraordinary economic growth that is a result of a population that is hungry for development and a dynamic investment climate. By 2010, China's economy will be larger than that of France or the United Kingdom and will account for more than a third of TV households worldwide. The opportunities for consumerism are vast, like the country itself. This is reflected in the spectacular growth in advertising, which topped US\$14.5 bn in 2004. Estimates vary, but all are unanimous in the belief that China will be the second largest advertising market in the world within the next ten years.

To prevail in China, businesses in the marketing communications industry need to understand themselves and what their role is in the market place. Birkin highlighted four generic issues

that need addressing:

**Media deregulation** - China's TV market is highly regulated. Restrictions will be relaxed as China gains greater confidence and becomes a true global competitor for brands.

**Talent** - In the Chinese economy generally, and in advertising specifically, there is a surging demand for improved management and creative skills.

**Brand development** - For real brand building to take place, both for local brands with national and international ambition, as well as, in some cases, global brands in China, marketing departments need to be established with clarity and authority.

**Intellectual property** - Piracy is a major issue for many brand owners. The issue has registered with the Chinese government, and it is hoped that action will be forthcoming.

Advances have been made by the marketing communications industry; those agencies that are successful attribute their progress to building core brand values for products and focusing on both local and multinational business. The market has proven that there is room for large full service players and small specialist providers, demanding a range of services, including advertising, CRM/events/activation, PR and speciality and interactive/digital communications.

Finally, in order to make the most of the talent pool and drive business, agencies must be entrepreneurial, flexible and adaptable to the fast-

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# Shanghai surprise

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moving trends in the local market-place.

At the recent International Business Leaders Council arranged by the Mayor of Shanghai, the city announced its plans to brand Shanghai and identify metropolitan clusters that could be act as "skill centres". The metropolis wants to be the centre for service providers in China, as well as the first "digital mega-city". Success will be inevitable for China, but to capitalise on it, the marketing communications industry must be clear and focused in its goals and avoid the temptation of trying to be all things to all men.

Praveen Kenneth: India's Learnings

Praveen Kenneth compared the complexities of marketing communications in China to similar experiences in another large and dynamic market, that of India. In both countries, nothing remains constant and advertisers struggle to maintain equilibrium while the ground shifts beneath them. Praveen put forward ten learnings:

1. Brands don't happen overnight. It took Coke and Nestle 20 years to establish their brands in India. Agencies need to manage the expectations of local entrepreneurs and dampen expectations for instant brand performance.
2. The consumer is always fickle. There is no single consumer - a fact that is exaggerated in a large market such as India. Consumer research can therefore only give guidance, not answers.
3. The rise of the hero. With the rise of the middle class, aspirational marketing and celebrity endorsement are successful tools. The trick is knowing which entertainment star or sports hero to back. Keeping track of trends is key.
4. Media fragmentation. An inevitable trend, despite regulations, that agencies have to track and understand, in order to provide clear direction to advertisers.
5. Kids take pride of place. The focus has moved from the family to the child. Kids rule the country and are key decision-makers. They are brand indicators and integral to the selling point.
6. The rise of value consciousness. Consumers are turned on by money for value, not value for money.

Agencies should beware of existing perceptions.

7. Global brands increase opportunity for local brands. Global brands educate the consumer and enable local brands to launch in the market at a lower entry cost.
8. Aspirations drive the market only when they are in grasp. In a developing country such as India or China, marketing communications must bridge the gap.
9. Localise/drive - communities. Brands must make sense locally.
10. There are no winning formulas. The key to success is understanding the consumer, whatever the market conditions. Spend less time in boardrooms and more time understanding what drives the consumer to a brand. If it's not locally relevant, globalisation is dead for India and China.

Tom Doctoroff: Shadows and Light - The Future of Brand Communications

No one can deny the explosion of advertising in China, as consumerism emerges. The challenge is finding your target and making yourself heard above the cacophony of messages. While the majority of advertising in China is best described as bland, creative breakthroughs are happening more and more often, as recorded at the national advertising awards, held in Xian this year.

In many sectors, there is chronic overcapacity, which leads quickly to commoditisation and lower prices. Advertisers need to understand and develop brand cultures for their products if they are to survive. Chinese consumers need brands to navigate their way round the surfeit of choice now available to them. Brands structure the social universe for consumers. They offer identity and status and bring sanity and organisation. All these are important to a Chinese individual, who has an unquestioning belief in the Chinese world and the part that each person plays. Anything that creates or reinforces orderliness is good.

The development of Chinese brands is still in its infancy as local advertisers have yet to see beyond a tagline and grasp the basics of brands and how they work best. Progress is being made by a few brands, which either identified a clear proposition for

consumers, or used fundamental motivations of a sector to encourage product preference, or simply created an innovative product.

Despite the inroads made by local advertisers, there are three weaknesses that continue to appear in local brand messages. These are the habit of confusing brand awareness and equity, the lack of clarity caused by use of manufacturer's jargon instead of consumer benefits and the inability to stick to a single brand positioning. It is partly because of these mistakes that Chinese brand icons are still international.

There is a role for international agencies to understand these limitations and be able to help develop local marketing skills. Investing in local understanding of usage and attitudes, media efficiency and advertising planning is a must. Agencies would be well advised to look out for warning signs that highlight weaknesses in local clients' ability to market products to an international standard.

1. Is the marketing department separate and empowered to build long-term equity or is it a division of the sales department?
2. Is the senior local management consumer driven, or is it more focused on preserving social stability or corporate governance?
3. Is the company hierarchy hindering progress through competing power factions and suppressing younger employees?

To be successful and profitable in China, Doctoroff had the following advice for agencies.

- There must be a firm belief in the provision of a superior product. Agencies need to stand shoulder to shoulder with each other to build the industry's reputation in the market.
- With so much changing in a fast-paced market, a stable and committed management team can build a necessary safe haven.
- First-class planning is worth investing in and enables an agency to not only sharpen its skills and insights, but to educate clients.
- Make sure your pricing structure allows you to make a profit.
- Invest in training to keep rising stars

In looking to the future, Chinese

# Shanghai surprise

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advertisers are in the process of understanding how to communicate with consumers. The advertising market is maturing and becoming more experienced day by day. Watching those changes happen is what makes the market so exciting and inspiring.

Domestic agencies will learn and evolve. The Chinese people have an incredible understanding of the rest of the world. They are realists and can interpret the surrounding challenges and adapt their insights for the Chinese environment. Each lesson learnt is an incremental step towards a local model of understanding standards and practices that will take the best from the West and fuse it with the finest in the East.

Joseph Wang and Neil Hardwick: Realities of the Chinese Puzzle  
The past cannot be relied upon to help unravel the complexities of Chinese market, which is gaining momentum and changing faster than is almost physically possible. These two speakers looked at this metamorphosis from different angles.  
To have any chance of understanding today's Chinese consumer you have to experience what is happening now. To illustrate his point, Joseph Wang used the recent phenomenal success of Supergirls Voice, a reality TV search contest that is similar to Pop Idol. The ratings for this programme were the highest ever for a TV series in China and over 400 million viewers watched the final programme.

The programme broke the mould in a number of different ways. Firstly, it was the brainchild of a regional TV station, Hunan Satellite TV, not the government-run national TV channels.

Secondly, there were no judges. For the first time ever on TV, viewers could vote for winners via SMS in real time. On the final night of voting, the station received 800m text messages. The programme so captured the imagination of viewers that fans of the eventual winner, Yu Chun travelled across the country lobbying for people's votes. As a result, Yu Chun is the only person in China to be popularly elected by 100m people!

Hunan Satellite TV has unleashed a powerful channel by creating a deeper and more meaningful relationship

with consumers. It appealed to younger people by showing that anyone can appear on TV if they are commonplace, confident and cool. It was an eye-opener. Viewers showed their feelings by voting for individualism. An everyday Chinese superstar was created overnight.

The programme showed that breakthroughs against the norm are achieved by looking at creativity in a holistic way (channel delivery and relevance). To combat the size of the Chinese market, it is important to activate a brand, whilst remembering that cultural sensitivities and values are critical and should not be ignored. Neil Hardwick addressed the Chinese conundrum by dispelling some of the myths and highlighting some of the truths about the market.

## Business Growth

- A quick glance at advertising spend figures would indicate a rapid expansion. However, on digging deeper, much of the increase is accounted for by the rise in media costs.
- Consumer spending is not growing as fast as GDP.
- Less than 12% of above the line spend is through international agencies
- The largest agency in China accounts for less than 1% of advertising spend.
- Top advertisers are P&G and pharmaceutical companies (pharmaceutical advertising is restricted from 2006).
- In business, international companies are coping with shrinking margins due to intense competition and most major Chinese companies are not profitable.

## Consumer Generation

- Only two out of ten Chinese are average urbanites and one in ten make up the emerging middle class, although in real numbers, this is still a huge market.
- Benefiting from the new consumer age depends on where you live (top urban centres vs. secondary cities vs. rural) - there is more than one China market.
- Everyone shares a pride in China and being Chinese, as well as a bright optimism for the future.
- There is an unprecedented sense of freedom (being able to vote on TV), but that doesn't guarantee the best result (Yu Chun was the least competent singer on Supergirls

Voice, but won the competition).

- Material ownership is driving a desire for knowledge and short-term gratification.
- There has been a shift in balance from "we" to "me", which doesn't negate the desire to belong to a group but highlights the need to establish one's own identity. The single child policy started in 1979 has led to Single children being dubbed "Little Emperors", as they are used to getting their own way and exude confidence and self-belief. These children are now young adults.

## Some Consequences

- The economy is expected to continue to show growth up to the Olympics, as the government invests in preparation for the Games. After that, the future is anyone's guess.
- Two of the few advertisers addressing the needs of the bulk of the Chinese population (poorer and more rural) are Nestle, which has produced a lower quality chocolate bar, and Unilever, which has introduced cheap detergents in smaller packets in rural markets.
- The strength of China's national pride sometimes shows itself as an indignant reaction to advertising that appears too close to the bone. A weak advertising law is also open to wide interpretation, which can mean that ads are pulled even if they have been approved by the censure board.

To agencies that are looking to invest in China, Hardwick's advice was:

- Come straight away but take care to look at figures in the right context.
- Be clear about your proposition.
- Take care to understand local advertisers' needs., the Western style of advertising is not always what is wanted.
- Make sure you spend time finding the right partner, as agreement are difficult to undo and can have repercussions for years.
- Look for skills in the market, rather than concentrating on filling gaps in geographical coverage.
- Be prepared to make mistakes and be adaptable.

*If you would like to discuss business in China, or attend the "Eastern Promise" seminar in London on the 2nd February, please indicate on page 11.*

European development:

## Will East go West

Western marcoms agency practice has largely flowed East over the years in the wake of US and European multi-national companies penetration of Asian markets. The only market they have always struggled to make any serious inroads into has been Japan, the world's second largest ad market, which is an extraordinary non-transparent market dominated by three agencies who between them buy 65% of all TV time and manage to do so through most conflicts of interest you can imagine. Japan aside, however, most Asian markets have been relatively open to western ownership of marcoms agencies, but there has been little successful investment by Asian agencies in the West.

Maybe this is set to change over the next few years, as we see more overseas investment in the major Western markets by aggressive high growth brand owners emerging in Asia, in India, China and Korea, for example. Probably even the Japanese will finally discover a model that will work for them overseas. Part of the fuel for this is the wall of dollars held by the Asian exporters that their governments are anxious to see recycled into investments in the US, Europe and elsewhere (as is true also for the petro-dollars held by oil exporters). As these Asian companies establish their manufacturing and distribution centres in the West they present opportunities for their

domestic agencies to follow their local clients West, just as western agencies followed their clients East in the 50s and 60s.

Whilst it is true that only Japan has large indigenous agency operations, there are emerging agency operations elsewhere in Asia, and maybe some that hardly even exist at present, that we believe will be encouraged to invest in the West in the next few years.

In China, there are emerging brands from Lenovo (who recently acquired IBM's PC division), telecoms supplier, Huawei, and white goods producer, Haier, and several other major manufacturers, whose pioneering overseas are being encouraged by the "Go Global" policies of the Chinese government. Even if presently their competitive advantage remains largely based on cheap production costs, this will change over time as was the case with Japan in the 70's which used its growing penetration of western markets to learn extensively about the branding, technology, quality and marketing needs of local consumers and to satisfy these in ways that domestic manufactures didn't.

In Korea, Samsung, the countries largest conglomerate, which has doubled in size in the last 5 years to \$140bn in 2005, has just announced a plan to double again in the next five years, fuelled by a \$45bn investment in R&D. They clearly intend to lead their primary global markets through innovative competitive technology. In the automotive field, Hyundai is similarly investing aggressively around the world in its R&D,

## RESULTS NEWS

We are delighted to be able to announce that Keith Hunt has joined Results as a Senior Partner - and that we have made a change to our trading name.

Keith is a very experienced corporate finance professional having spent 10 years with Ernst & Young, latterly responsible for the Media M&A practice, and subsequently performing a similar role at Moores Rowland before joining Results. Keith will be working across the corporate finance practice with some of the firm's largest clients.

We will operate from January 2006 as Results International Group and our website will be updated in the near future. The name change is not dramatic, but brings us into line with our international partners. We will be contacting all current clients on the formalities surrounding this change.

manufacturing and marketing. Western agencies are working hard on building relationships with these

emerging world brands as they seek best in class marketing communications suppliers around the globe. They shouldn't be surprised if they find that such skills flourishing amongst the domestic agencies working for these companies and that the entrepreneurs behind these agencies will be just as ambitious to follow their clients as were western agencies with their domestic clients.

## Getting your head round neuroscience

continued from page 2

sums in building brand relationships through experiential marketing.

When it comes to assessing creativity and emotionally-based communications, 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. Now 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.

*Peter Laybourne is Chairman of Neuroco and also Chairman of qualitative brand planning agency, Fathom International. Dr David Lewis is Neuroco R&D Director and Europe's leading exponent of Neuroscience and an author and broadcaster on the topic.*

# ABOUT RESULTS

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

The firm's partnership and consultants bring a depth of experience across all aspects of the business ~~xxxx~~, supported by the corporate a global network of partners and associates, covering over 40 countries. Our senior consultants are:

**Graham Beckett:** CEO. Previously MD of Golley Slater & Partners, London, having previously built and sold his own marcoms agency in the 1970s.

**Keith Hunt:** Senior Partner. Previously Head of Corporate Finance, MooresRowland, and Head of Media M&A, Ernst & Young.

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

**Jim Surguy:** Partner. Previously MD Lonsdale Advertising, Deputy Chairman KLP, and a director of McCann-Erickson, London.

**David Blois:** Senior 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:** Senior Consultant, previously with BBDO/DAS/Omnicom and CDP Europe/Dentsu.

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

**Sara Fielding:** Senior Consultant. Founded her own consulting firm, Adarco, in Thailand, after working in client service in multinational agencies including Leo Burnett.

**Andy Collins:** Senior Consultant (fund-raising). Previously FD at Triangle, Northern & Shell Plc. and

Elan (including fund-raising), Raw Communications (including fund-raising) and Asfare, AIM flotation.

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

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

**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.

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

Further details are on our website: [www.results-consulting.net](http://www.results-consulting.net)

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M &A Opportunities

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Guest article:

# Riding the B2B wave

by Paul Cash, Joint MD, Tidalwave Limited, an intergrated B2B agency

Creativity. Imagination. And an understandable self-confidence and belief that what you're doing is right. There's a buzz about B2B these days a bit like the one in Swinging London's hey-day. Because here is the place to be, where innovation and creativity are transforming the B2B landscape. Pipedream? No, just marketers recognising that B2B is capable of filling up the pipeline for sales.

Time was when the popular image of B2C advertisers was stereotyped by red braces, while the mole-like B2B creative in his cellar was just writing belt-and-braces copy: tell them the facts, the facts, the facts. Everyone saw that B2C ads used the left side of the brain; B2B the right. And which one did people want to get into? A bit of a no-brainer, that one.

Not surprisingly, the stereotype was perpetuated by the textbooks. In 1984, the 'Complete Guide to Advertising' dedicated half a page to the poor relation, B2B - rather less than it gave to recruitment advertising; in 2000's 'Advertising<sup>2</sup>', it fared little better, with 400 words out of 694 pages.

In the future, however, books will have to radically rethink the way they portray the balance between B2B and B2C. A report from the States, 'U.S. Direct Marketing Today: Economic Impact 2005' shows expenditure on B2B DM is growing faster than that on B2C. So are sales. And the growth in ROI is outstripping B2C as well. Because it's finally got its act together in accountability, creativity, insight and data.

**Accountability.** The whole point of DM is that it's measurable - which

means it should be easy to point the finger at agencies that get it wrong, or praise those that get it right. Yet a couple of years ago, Mobium reported that just 28% of B2B marketers in the US measure ROI for 'most' of their marketing communications, while 64% measure it only for 'some' and 8% don't measure it at all.

Even more frighteningly, nearly half believed that measuring isn't important. Education is starting to change that opinion. In 2005, you'll see more B2B magazines, more B2B courses and conferences, and more B2B resources online than ever before.

Of course, there are other factors. For example, as recently as the early '90s, one of the UK's most successful IT systems for catalogue companies required programming to generate even standard reports. In recent years, however, the consolidation of data from various silos and touchpoints, as well as the development of new IT solutions, has enabled analysis to be more accurate, rapid and meaningful.

That means marketing departments are starting to demand that agencies are truly accountable.

**Creativity.** Ask the average passerby to name a great ad and he'll name a consumer campaign. But diminishing budgets over the last few years have kick-started B2B into a new frenzy of creativity, stemming from clients' recognition that when business folk take off their suits, they're ordinary people. Which means that, if we can exploit the crossover between the mindsets of consumer and business - for example, by enabling an IT manager to first recognise a brand or product from the point of view of a consumer - we can approach them at home as well as in the workplace. As long as we do so with the most appealing and appropriate message.

**Insight.** We'd all love to spend a week at a client's factory or walk the walk with a customer; we'd love the chance to take products home, so that we can really get to grips with them. But there's a fast-moving marketplace to cope with, and few B2B products show their value in your own living room. So how do we get the insight we need into audiences and products?

Good question. And B2B's answer is - in part - dedicated teams of experts agency-side. A knowledge system, whose entire raison d'être is to help their understanding to grow and to develop new techniques in immersion planning and research, to identify the kernel of truth that will generate the perfect proposition, and to propagate their knowledge throughout the rest of the agency.

**Data.** Thanks to the refined way in which geographic, psychographic and other forms of segmentation are used in B2C, consumer advertising can get right inside the head of the audience, and use that information to target with absolute precision. B2B? It used to be 'Oh, let's send it to managers in these SICs'.

Now, B2B marketers have moved from shotgun-style programs toward more focused initiatives, supported by more sophisticated technology and solutions. Already, the use of improved data and trigger-based marketing to send messages that are not only timely but also appropriate is paying off in a big way. It's also enabling B2B to develop a nurture marketing approach which, apart from its other benefits, enhances potential longer-term returns from increased loyalty and lifetime value rather than the quick sale.

So enjoy B2B's place in the sun. But remember the lotion.

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