COMMUNICATIONS: A COMMODITY BUSINESS?

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For an industry that created most, as well as the best-known consumer icons in the world, for example Levi's and Coke, the advertising industry itself is stagnant with fewer successful brands being created every year. It is essentially under-trained, under-experienced and still operates the way it did decades ago. While I refer specifically to advertising in this article, the same arguments may be applied with equal validity to other communications industries like design, public relations and consumer promotions.

The advertising industry has become the ultimate bureaucracy which fails in the fundamental task of furnishing clients with creative, innovative and appropriate products.

Ironically, whereas the wider context of communications is changing, with the entertainment, software, broadcasting and consumer electronics industries undergoing greater convergence, the narrow contexts of advertising, public relations and the like, show a remarkable tendency to implode upon themselves. In fact, these industries run the risk of being flooded by the converging industries which demonstrate greater entrepreneurship and nimbleness to change in a turbulent world.

In advertising, the ability to 'deliver goods' has become more important than providing clients with creative, innovative and appropriate products. Production-lines seem to increasingly gravitate towards generics. The industry preaches differentiation to its clients, but it seldom gives it to them in communications, and it certainly does not apply it in its own organisations.

The fact of the matter is that members of the industry have forgotten why they are in business, how they may excel and how to differentiate themselves from each other. They fail to give clients distinctive reasons for dealing with them. Most advertising agencies world-wide include 'creative excellence' in their mission statements and there is probably an 80 per cent overlap in their positioning statements.

Differentiation and the creation of new products are fundamental to growth and evolution in any business. The advertising industry now sells commodities where price dictates off-take and economies of scale become imperative to survival. More often than not, no value, or questionable value, is added to the production process. When agencies do succeed in adding value, they market themselves badly.

These statements may be elaborated by a number of points.

1. An organisation sells what it produces

A business is obliged to sell its core competencies. These competencies form its infrastructure and its cost structure. The natural tendency and obvious business imperative is thus for an organisation to sell what it produces.

This seriously undermines the ability of most communications companies to address client needs in an independent and holistic manner. If a company knows more about publicity, it naturally gravitates towards it. If a company knows more about advertising, it naturally recommends it. Dependency by implication undermines objectivity.

Despite all the talk about integrated communications world-wide, advertising still forms the bulk of the income of most agencies, despite the much higher growth rates in other areas of communications. Clients are left in the position of having to decide for themselves which alternative communications services they need and where to buy them. When all the communications discipline are offered by a single organisation, the creative concepts originated by advertising creatives, still rule the roost.

While I am certainly not against specialisation, *per se*, I question the ability of one specialist to be an independent broker for the holistic communication needs of a client. This entails the identification, recommendation and production of appropriate solutions, irrespective of an organisation's core competencies and the extent to which they may be undermined.

The current tendency of agencies to allow competencies, structures and procedures to define and dictate the future, signifies a myopic view of business. The inability of the advertising industry to resolve clients' needs in never-ending evolutionary ways, leads me to believe that it has become the ultimate bureaucracy!

2. Understanding of holistic communication

Alvin Toffler, as well as many other writers on the future, see knowledge as the new frontier of power.

In the advertising industry, this means knowing more about communications than one's client. The extent of this knowledge is seriously questioned by many clients today and has resulted in a reassessment of the value which agencies in particular, and the communications industry in general, add to a client's business. Clients are even questioning whether advertising still contributes to branding the way it did.

When research companies like Impact Information and Research Surveys as well as articles in prominent journals, quote figures of more than 80 per cent of advertising not being effective, one can understand clients' questions and concerns. If the magnitude of the problem is even remotely true, one must indeed question what value is being added. Are the cases submitted to an AAA Advertising Effectiveness Awards the exceptions rather than the rule? Is it enough for a public relations agency to submit monetary quantified press coverage? Who really reads these reports and what difference do they make? Are clients really concerned about how many awards a new design has won?

Surely, communications can only be measured by the economic imperative of the equity added to a name, moving it beyond the equity and earnings of a commodity. Most classical brand valuations, a hotly and widely debated topic, look at the margin earned by a brand versus its commodity equivalents. How much has the advertising industry in South Africa done to one, create such equity of late and two, provide evidence of it?

These issues have resulted in declining profit margins for many advertising agencies. All marketers know that when value is questioned, price dictates. Clients demand that agency commission rates are reduced, budgets are cut and design quotes compared - loyalty declines and the relationship between supplier and client suffers.

Without accepting the knowledge challenge, communications specialists cannot hope to truly add value to their clients' communications. Today this knowledge entails a holistic understanding of communications. It includes an understanding of which modes of communication are best suited to the achievement of specific objectives, and the synergistic contribution of channels, modes and messages so that together they become more than the sum of each part.

3. Production and output

The commission system currently operated by agencies, and many other disciplines like event management and certain areas of design, seriously undermines the objectivity of channel recommendation and supplier choice. It is fairly obvious why it is in the interest of a communications company to recommend the supplier that will generate the most commission. The advertising industry is probably the only one where doing less (making one commercial and flighting it for years), leads to better income and profit! Evidence now clearly suggests that advertising needs to change frequently if consumers are to be challenged.

Other practices in the industry which are problematic include user discounts beyond what clients pay and the interface between clients and senior communications company executives. There are instances where clients very seldom see senior executives. While many professionals may never contemplate these practices, they constitute processes in the industry that are fundamentally flawed.

Clients should get what they pay for, just as brand consumers get what they pay for. For instance, if they want Nike (great quality/great image), they pay the price. If they are prepared to settle for less (reasonable quality/weaker image), they also pay the price. The communications industry must be paid for the value it adds to a client's business. In tangible terms, and today this can be determined reasonably accurately, the value is the contribution perceptual management makes to the equity base of a company, and therefore the resultant profit. While I agree that this is not easy to measure, some attempt at objectivity and accountability should be instituted.

A move towards paying a fee for the value that is added, or is being incentivised for the disproportionate perceptual performance of a brand, deserves consideration. This is starting to emerge in the United States, which in turn means only the best will excel.

4. Resource limitations

A business is constrained by its core capabilities. Its creative, strategic and other outputs are limited by the people employed - once their creative abilities dissipate, they become tired or bored, or are expected to function outside their personal field of capability, the organisation's outputs suffer.

In an era of increased networking and outsourcing, surely best resource networking is a desirable way of expanding the quality of resources and creative output. What a client really should pay for, is the provision of the best skills available for the task at hand. The creation and management of company and brand equity should not be constrained by the mediocrity of resources, or the constraints of an organisation's core capabilities. Clients who are placed in this situation, simply resort to doing things themselves (as is effectively already the case with many multinationals who use local agencies to execute internationally agreed strategies and creative concepts).

In an information era, where resources can be employed from any geographical location, it is possible to provide clients with the best solutions to meet their particular needs. In fact, not doing so undermines the industry or any agency's ability to add value. Surely, when Microsoft decides it needs a partner with particular core capabilities, it buys one or forms an alliance with the best one available. In the advertising industry every member attempts to set everything up, at huge opportunity losses and never really achieving great synergy of results.

This and the willingness of the greater communications industry to synergise and converge, leaves one wondering whether the advertising industry is blind. Is it unable to see that it will be made redundant by clients? Furthermore, the industry unquestioningly accepts that titles enable: for example that only someone called a 'creative' can 'create'. Why is an architect not as 'creative' as an agency art director? Has the industry not myopically painted itself into territorial corners? Once again, this sounds bureaucratic to me!

5. Isolation

The players in the communications industries have succeeded in compartmentalising themselves very well. Advertising agencies, public relations consultants, direct marketers, media shops, design consultancies all operate in isolation. They rarely talk to each other and seldom know what the others do. When they have joint meetings, they all vie for the largest share of the cake instead of assisting the client to arrive at the best solution.

The emergent world of business indicates that competition and co-operation will converge - today organisations will compete, tomorrow they will co-operate. Major corporations are doing it, yet the advertising industry is not. Egos?

6. In a nutshell

The medium term future of the communications industries looks bleak - now that the world, and South Africa in particular needs them more than ever. The situation calls for capable people, independent in thought and objective in recommendation, able to devise optimal solutions to clients' needs, and to execute them as effectively as possible. To achieve this, the communications industries must work towards a situation where real customer need and their own capabilities converge.

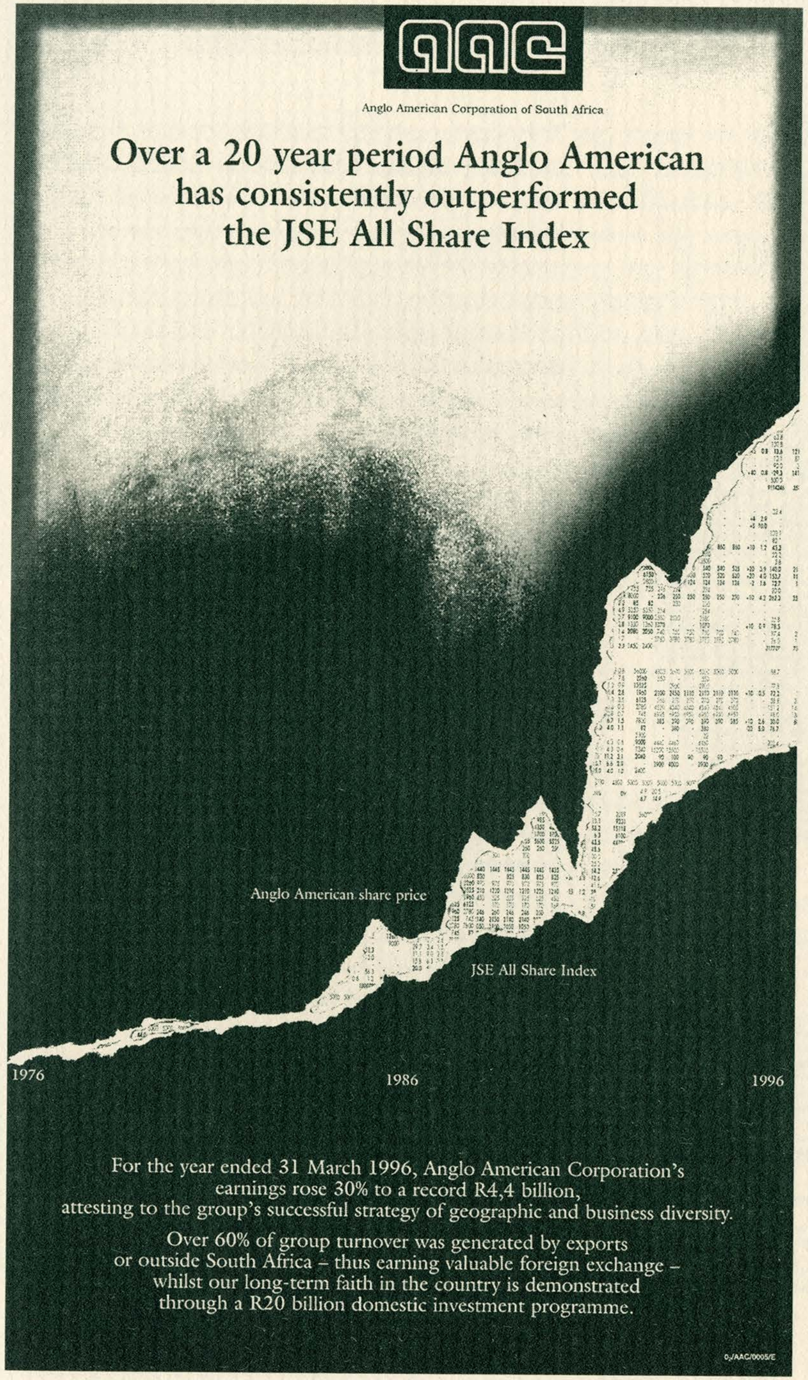
ACCOUNTABILITY AND COMMUNICATIONS

The core challenges facing the communications industries today dictate the following principles:

1. the economic imperative or accountability of all communications
2. the holistic communications knowledge imperative
3. the best resource application imperative
4. the creative strategy interpretation imperative
5. integration between strategic and creative functions
6. the transparent fee and co-accountability imperative
7. integration into a team working on the whole business, not just external communications.

All communications must have an economic imperative: adding company or brand equity through perceptual management. The most fundamental imperative for communications is the achievement of a desired perception. A communications company must be prepared to accept co-responsibility for this. To enable a company to do so, it needs excellent understanding of all communications disciplines, the best execution ability and the stated commitment to be held accountable.

Communications disciplines, channels and modes have varying strengths and weaknesses. For instance, while advertising may be good at establishing attitudes in a company, it is generally weak at changing attitudes. For that interpersonal



and intergroup mediation may be more successful. While perceptual management for impulse purchased brands is important, merchandising and in-store differentiation are more important. For banks, customer retention and the methods employed to do this, are more important than the acquisition of new customers. The right media channels and modes, used in an appropriately integrated fashion will lead to the achievement of defined business objectives. A communications company must thus have a multiplicity of insights and expertise available to devise the most economical and appropriate communications plan.

Once a plan, with set objectives, media channels and modes, budgets and time frames has been developed, the principle of best resource networking should be employed to execute what is needed (i.e. publicity, advertising, design). This entails buying in whichever resource will optimally solve the problem. This procedure counteracts owning any discipline, lowers overheads, overcomes resource limitations and extends choice and access beyond stereotypic resources. In fact, a multidisciplinary approach suggests that resourcing need not come from established communications groups or freelancers. Who after all, makes the rules for where strategy stops and creativity starts?

A multidisciplinary approach is capable of achieving great synergy between the strategic and creative outputs - something which is problematic in almost all agencies. Traditional divisions make disciplines territorial. Accountability often gets lost between strategic divisions and creative divisions - was the strategy bad or wrong, or was it poorly executed?

The priorities underpinning the philosophy of selling value instead of discounting on price, are a knowledge of different facets of communications and senior interface between client and communications company. Communications practitioners must get back to selling the best, instead of offering a commodity cheaper than elsewhere.

The client should pay a transparent fee for this service - not a commissioned rate which may bias planning and execution. This fee should be independent of all planning and output, but be reflective of activity levels. Both client and communications company should at all times feel the partnership to be in their mutual interests. Unlike the commission still being earned years after an advertisement has been made, the communications company should earn its keep through consistent involvement. Regular reviews must become an integral part of the process.

The result is great integration, a partnership and co-operation with senior management and the marketing team. In fact, much of the thinking on conceptualisation takes place where co-ownership can be generated. This includes the integration of the overall company positioning, staff alignment (to deliver what has been promised!) and external communications output. It also means that the communications company has as much responsibility to ensure that staff understand the strategy as it has in executing an advertisement. It demands that the communications company integrates itself deeply into a client's business because it is paid for an holistic concept and will be measured accordingly. Most importantly, a communications company cannot afford to stagnate. This would undermine the philosophy and the definition of a differentiated business.

Illustrations

These advertisements form part of a series, by O_2 Communications, to reaffirm Anglo American Corporation as South Africa's foremost multinational corporation. In turn, they reflect on the excellence and stability of AAC's financial performance over an extended period of twenty years and on AAC expanding its co-operation with major multinational companies like Mitshbishi - Japan.