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A CASE STUDY ON MATRIX ADVERTISING

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MATRIX ADVERTISING

(A Marketing Case Study)

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Section 1 – The Case

1.1. Introduction

This case study examines the business undertakings of an advertising agency named Matrix Advertising and provides the background on the company as well as the industry that it is in.

From the year it started operations in 1988 to 1996, Matrix Advertising, an 11-year-old, medium-sized, local and full-service advertising agency grew steadily in its billings from RM2.5 million in the first year to RM17 million, with targets more or less met in most of the years. The growth came from either existing clients increasing their advertising expenditure, or from the successful winning of new clients.

For 1997, the target set was RM20 million, and although Malaysia and the whole region suffered from a massive economic downturn, which commenced in mid-1997, the agency managed to achieve close to RM18 million. This was a creditable performance (10% short of the target) in view of the fact that many other advertising agencies reported downturns of up to 60% accompanied by retrenchments and pay cuts.

Since the target was not achieved in 1997, the management again set a target of RM20 million for 1998. But the actual performance was again short by 10%, and the agency achieved close to RM18 million for the second year running.

During its annual Company Business Review Seminar in January 1999, the management of Matrix Advertising once again set a target of RM20 million for its staff to achieve for 1999. Staff were informed that the achievement of this target was crucial for the growth of the agency and failure to achieve this target may result in pay cuts and retrenchments. The management also expressed its view that the economic recession could not get any worse, and that an upturn may be expected during the year, and thus every effort must be made to secure new business.

The General Manager of the agency was given the task of working out a business plan to achieve this target and the staff was instructed to give their full cooperation and best effort.

Matrix Advertising – From the Beginning

Matrix Advertising started in 1988 when its founders, Joseph Raymond and Andrew Tan, who were managing an American international agency decided to come out and start their own agency. The agency started with 4 people, the 2 founders, a secretary and a dispatch boy and a few clients who agreed to appoint Matrix to handle their advertising.

During its 1st year of operation, the agency achieved billings of RM2.5 million. It's targeted billings for 1999 was Rm20million based on staff strength of 30.
Table 5 in Appendix B contains Matrix Advertising's Forecast for 1999/2000.

Matrix Advertising was a medium-sized, local, full-service advertising agency that was accredited to all media in television, newspapers and radio. Its core business was advertising and throughout the years it had extended its services to include other components of the communications mix such as public relations, direct marketing, event management, sales promotions and personal selling.
Tables 6 and 7 in Appendix B contain financial statements for Matrix Advertising for 1997 and Tables 8 and contain financial statement for 1998.

Matrix began operations in 1988 with a simple philosophy:
" To produce good advertising that works. And have fun doing it " The agency was built around the mission of understanding clients' business, building partnerships that mutually

enrich and creating effective and memorable advertising. In its Mission Statement, the agency explained that great emphasis was placed on its talented and committed people. People, who cared for their work and their clients and who naturally, excelled at what they did best because they enjoyed the creative and strategic process.

In 1998, Andrew Tan, the General Manager, outlined a work ethics plan that comprised of the following:

1. Create money for client
2. Create speed
3. Create opportunities from crisis
4. Create top value
5. Create self-leaders
6. Control negative habits
7. Control cost
8. Control cash flow
9. Control quality
10. Control time

The plan was presented at the agency's 1998/1999 annual business review seminar and all staff were instructed to live up to it in order to provide top quality services to clients and increase business and billings.

Matrix Advertising comprised of 5 main departments:

1. Account Management
2. Creative
3. Production
4. Media
5. Finance and Administration

Matrix's account servicing and management department comprised of two teams which in turn comprised of an Account Director, an Account Manager, Account Executive and Account Coordinator. These two teams serviced and managed separate groups of accounts or clients and acted as the link between the agency and its clients. Matrix's account management personnel were required and trained to be custodians of their clients' brands. They were required to plan strategies and set directions to ensure that communications campaigns conducted by the agency for their clients were successful in achieving the set targets, whether they were sales targets, creating brand awareness or building positive corporate image. They were required to work on an account or job from the start to end, when the job was successfully completed.

" Unlike Account Executives from a lot of other agencies, including international agencies, our Account Executives are trained and expected to be more than, "runners", who merely run to and from the client and agency to get a job done," said Christina Tan, Account Director, " At Matrix, our department is named Account Management instead of

Account Servicing. Our Account Executives and Managers are required to be proactive and come out with strategies to help our clients grow their brands and market share. We pride ourselves on being a," Thinking Agency."

A Creative Director and Associate Creative Director headed Matrix's creative department, comprising of 2 Art Directors and studio staff. Unlike some other agencies who employed freelance artists, the agency employed its own full time studio staff comprising of 6 DTP artists who worked on creative execution of artwork. The creative department also had a Traffic Controller who monitored the flow of work from start to finish and ensured that work was correctly done and delivered in time to the account management team.

" Creative excellence is a given. Any agency is expected to provide just that, " said Kenneth Lim, Creative Director, " It's nice to win creative awards but what is more important to us is that our creative ideas create results for our clients. Whether it is brand building, sales generation or corporate awareness. We recommend practical creative solutions to our clients. Not all clients need to advertise on television or newspapers to achieve their aims. If all they need is a Direct Marketing campaign or in-store promotion that is what we will propose. "

The agency's production department comprised of a Production Manager and a Production Executive. They were responsible for the production of films and materials for television, radio, newspapers, magazines and other media and printing and production of point-of-sale materials such as leaflets, posters, display stands etc. They managed control of quality and monitored delivery deadlines.

" As in other agencies, our Production Department is a profit center on its own. In recent years, the market has become extremely competitive, " said Azman Zain, Production Manager, " Clients are approached directly by printers, colour separators and other suppliers and offered very good prices. This has resulted in a loss of business for us. We tell our clients to assign the job to us as we control the quality and delivery deadlines and it is worth the 17.65% commission that they pay us. But sometimes the cost quoted to them directly is so low we cannot compete. It is becoming a continuous struggle to get production work."

Matrix was an accredited agency that was on-line with ACNielsen's Media Tracking system. The media department was headed by a Media Director and backed by a Media Planner and two Media Buyers. Media services provided by the department to clients included media planning, media buying, monitoring of competitors' advertising expenditure etc.

" Like our Production Department, our Media Department is also a profit center on its own, " said Jean Lee, Media Director, " We provide media services for our clients as well as third party clients such as other agencies who are not accredited to buy media on their own. Some Media Independents have spoiled the market by offering media rebates up to 10% out of the 15% media commission that they earn to clients. We cannot afford to do this as our investment as an accredited agency is high. We place high bank guarantees with media owners and pay ACNielsen Malaysia a substantial fee for their advertising expenditure service, consumer media habits data and other services. In order to remain competitive, we have to offer value-added media services to our clients. At Matrix, advertising campaigns are not always creative-led, as in a lot of other agencies. There are instances where Media requirements play the lead. After all, almost 80% of a client's budget is spent on media."

The other main department was Administration and Finance that had 7 staff. This department comprised of the Managing Director's Personal Assistant that was also the agency's Administrator, secretaries, dispatch staff and the Finance Manager and Accounts Department personnel.

" At Matrix, creativity is not the sole responsibility of the Creative Department. We are all encouraged to come out with creative ideas and solutions in our work," said Jean Singam, Personal Assistant to the Managing Director, " There are times when our ideas are incorporated in to advertising campaigns for clients."

Clients and Business Partners

Throughout its years of operations as an agency, Matrix had handled a diverse range of clients, both local and international, from fast moving consumer goods (FMCG) to Corporate to Property to Telecommunications and Office Automation (OA).

It was to Matrix's credit that some clients had remained with the agency since the formation of the agency in 1988, which was a relationship that spanned more than 10 years.

However, during the agency's business review seminar for 1999/2000, Andrew Tan, the General Manager revealed that analysis of the agency's billings performance showed that in 1998, as much as 49% of its business came from 1 client. This particular client was also forecasted to spend a lot less for 1999 due to the recession. In addition, it was noted that, in 1998, out of a total of 30 clients, a massive 86% in billings came from only 10 clients.

Tables 2,3 and 4 in Appendix B contain actual billings for 1997 and 1998.

The economic down turn that started in 1997 resulted in a sharp decline of advertising activities and expenditure. Apart from a few international clients who maintained or increased their advertising to further strengthen their market share and brand image, most clients cut down on their advertising especially above-the-line advertising, due to a decline in business. This decline in advertising resulted in the closure of 1 international advertising agency and several local ones, retrenchments, salary freeze and pay cuts by a large number of agencies and increased competition among agencies.

During the agency's business review seminar for 1999/2000, the Account Directors who headed the Account Management teams reported that existing, new and potential clients were insisting on integrated communications solutions to their marketing problems. Unlike in the past where agencies only provided Advertising services, clients expected agencies to provide services such as Public Relations, Direct Marketing, Sales Promotions, Event Management and Personal Selling as well. The Account Directors also reported that clients were more discerning in terms of creative excellence and costing.

The increased competition among agencies had resulted in Matrix's clients being approached and aggressively pursued by other advertising agencies as well as Media Independents and other niche agencies specialising in Direct Marketing, Public Relations etc. Hence, Matrix had to ensure that its clients were completely satisfied with the quality of service and work that it received from Matrix.

The Account Directors proposed that the agency changed its direction and core business from traditional advertising to integrated communications services. The proposal was based on the needs and expectations of clients and threats from competitors. However, certain staff who argued that the agency should maintain its core business of advertising because it was the agency's area of expertise opposed the proposal of integration. They argued that integration required retraining of staff and upgrading of facilities which would take time. Integration would also result in the agency offering a wide variety of services, with no emphasis on any particular one.

The Future of Advertising - IT

As IT began playing a major role in the operations of advertising agencies around the world, the management of Matrix Advertising started planning for its own computerization. The main objectives for computerization were complete communication with clients via computers and internal flexibility, leading to higher work quality and operational efficiency and effectiveness.

The first department that underwent computerization was the creative department where, in 1994, the artists in the studio started working on Macintosh (Macs) to develop visuals and artwork. A freelance consultant implemented this exercise which involved the study of the studio workflow, the recommendation of software and hardware, the teaching and training of the studio staff, and monitoring of implementation. The results were faster workflow and more impressive looking artwork.

After this, the momentum picked up and in 1996, Mesiniaga was selected from among several IT vendors to implement an Advertising Job Tracking System (AJTS) that connected all the departments of the agency, from Account Management to Creative to Production to Media to Accounts department. This system started full operations in January 1997.

When Matrix decided to computerize extensively, it was decided that it had to be a system that was specific to the needs of an advertising agency. A dipstick survey showed that advertising agencies in Malaysia were all at different levels of computerization – studios in creative departments were almost all equipped with Macintosh (Macs) because of its superiority in creative software, and the LANs that were employed at the agencies were sourced from several providers that basically set up programs for finance, accounting etc. There was no specific provider of a LANs system designed for advertising agencies.

To create a paperless office where job flow instructions were electronically transmitted from department to department was a major assignment. There was a need to locate a local vendor that had the ability to:

1. design the system
2. provide the hardware
3. maintain and service the system

Mesiniaga who had a track record of systems solutions worldwide was selected.

After two years of operations, the system has had positive impact on work efficiency:

1. Monitoring of work – in terms of access to work and information at all levels.
2. Speed of work – faster completion of work and reduced redundancy. Department secretaries were upgraded to Account Management Coordinators.
3. Storage – less filing of hard copies and less wastage

4. Impressive work – better-looking work in terms of visuals and artwork
5. Client's response – ease of making decisions on the part of clients due to more impressive work

The AJTS, although based on IBM's Lotus Notes, was specially designed to computerize the agency's job track system, and thus it was also a pioneer project for Mesiniaga. While several hitches occurred during the operation, most were solved. The application of the system to the Macs still gave rise to occasional problems due to unresolved instability, and this remained the main glitch in the successful networking of the entire agency. Additionally, the objective of allowing the Account Management department's PCs to assess and view creative work generated by the Creative department's Macs had not been met, as some incompatibility continued to exist between the two systems.

Shortly after the implementation of the AJTS, all senior staff and Heads of Departments were provided with Internet access so that they could stay abreast of the latest in IT and competitive information.

<u>The People behind Matrix</u>

From the very beginning, the management of Matrix Advertising realized that advertising was a service. An advertising agency did not have any products to sell. What they had were strategies, creative solutions and ideas to help their clients build their products' brand image and win market share. These strategies, creative solutions and ideas came from the people who work for the agency.

Hence, Matrix Advertising was formed around the people that worked for it. At Matrix, people were its most valuable asset and resource. Their welfare was of utmost concern to the management, both in and out of the workplace. Management also invested in training to upgrade skills and every opportunity was given for personal growth. Under Matrix's 10Cs work ethics plan, it was the management's aim to train the staff to become self-leaders. This involved teaching juniors leadership skills and establishing a culture of self-reliance.

Matrix's staff comprised mainly of people trained in the area of advertising. The average number of years of staff experience ranged from two to over ten years. The average age of staff was 25 to 50 years old. Most of its staff, in particular older staff who have had a number of years working experience, had chosen advertising as their career and specialised in a specific area i.e. creative, media or account management.

" Like all companies, we have our fair share of staff problems," said Andrew Tan, General Manager, " At times the management found it an uphill task to continue to motivate certain staff to consistently produce outstanding work. Thus, in one department, the management found that some staff were not inspired to excel, in another, staff that were fixed in their thinking and not open to new ways and ideas, and in yet another, a staff that spread discontent. In order to put a lid on any unhealthy and non-performing attitudes, the management instituted a policy on accountability as tied to performance. But we found it difficult to devise a proper system to review performance and accountability that was measurable and effective to implement. "

Malaysian Advertising Industry

The advertising scene in Malaysia in 1999 consisted of international and local agencies, big, medium and small. The international agencies such as J Walther Thompson, Ogilvy and Mather, McCann-Ericson, Leo Burnett, Dentsu, Young & Rubicam and the like handled internationally aligned accounts of global accounts (in the advertising industry, clients are referred to as accounts) as well as local accounts. Local agencies such as People 'N Rich, Spencer Azizul, Bloomingdale, etc handled local accounts and international accounts that were not bound by international alignments to use any particular agency.

Agencies that were full-service and accredited; and smaller agencies, usually local agencies that were not, further differentiate the advertising scene in Malaysia. Agencies that were categorized as, "full-service and accredited" offered services ranging from Advertising and Promotions, Public Relations, Direct Marketing and Personal Selling and were accredited with the various media such as newspaper, television, radio, magazine etc. This accreditation enabled these agencies to book advertising space and earns a standard 15% agency commission. These agencies offered both above the line (advertising activities and expenditure that were measurable e.g. newspapers, television, radio etc) and below the line (advertising activities and expenditure that were not measurable e.g. posters, brochures etc) advertising. Most were members of the Malaysian Association of Accredited Advertising Agencies i.e. 4As for short. Members of the 4As were bound and protected by rules and regulations lay down by the association.

Full-service agencies were, in general, medium-sized to large, with staff strength of 30 to 300 people. These agencies operated their own departments consisting of Account Management, Creative, Studio, Production, Traffic Control, Media, Finance and Administration and in some cases, Public Relations and Direct Marketing.

Agencies categorized as, "small" range from staff strength of below 10 people to 20 and most offered niche and specific services such as specializing in only design work or below the line advertising such as producing brochures, posters etc. Some were not accredited and thus, were unable to book advertising space directly. They had to book through an accredited agency and shared the media commission of 15% with that agency. In this event, where the business comes from booking media for another agency and not for a direct client, the accredited agency categorized this form of business as, " Third Party Media services."

An advertising agency's performance was measured in "billings", a term used to describe and quantify the amount of business gained from "billing" (invoicing") clients that it produced advertising for. Out of the total of its billings, an agency earned 15% commission from media bookings and 17.65% from production work, which comprised of printing, materials, photography etc. An agency also earned a certain sum for creative concepts and ideas. This amount depended on the scope and complexity of the concept and idea.

In 1998/1999, based on figures released by the 4As, there were about 140 agencies in Malaysia and 61 of them were members of the 4As. Advertising expenditure (ADEX) in 1998, as reported by ACNielsen ADEX Service, totaled RM2.1 billion and the 4As members contributed 90% of this.

In 1997/1998, total ADEX in Malaysia were RM2.6 billion, as reported by ACNielsen ADEX Service, and the 55 members of the 4As contributed 85% of this.

Charts 1 and 2 in Appendix A contain total ADEX for 1997 and 1998.

In the mid-90s, the advertising scene experienced the arrival of Media Independents, companies that specialised in media planning and buying. These companies did not offer other services such as creative work and design. Some of these companies were subsidiaries of established advertising agencies. These Media Independents claimed to have both media expertise and dollar volume and promised clients more effective and efficient media planning and buying services. Some Media Independents offered clients major commission rebates of up to 12% out of the standard 15% agency commission given by media owners such as the newspapers, television and radio stations, magazines and outdoor advertising (billboards etc).

Public Relations companies that specialised in providing media publicity services such as press/product launches, press interviews, crisis management and board listing also provided services such as creative designs and media planning/booking, if required by their clients.

The advertising industry also comprised of "niche" agencies that offered specific services such as promotional management, direct marketing and event management. These agencies had their own creative departments and studios that produced creative designs and artwork.

Other than agencies and other companies that provided communications services, companies such as printers who printed brochures, posters etc, colour separators who produced film materials, photographers, production houses and post-production companies who produced television commercials, jingle houses and recording studios who produced radio commercials and jingles and event management companies played an important role in the advertising industry. These companies supplied specialised services that were crucial in the advertising field.

Other important players in the advertising industry were the research companies such as ACNielsen Malaysia, Acorn and FSA. These companies provided quantitative and qualitative research and survey services such as pre and post campaign surveys, retail audits, consumer media habits, media reach and frequency and focus group studies.

ACNielsen Malaysia was the only company that tracked advertising expenditure of all main product categories. This data was updated every month and supplied to its subscribers.

<u>Advertising Expenditure Overview: 1997 – 1998</u>

ACNielsen which reported Advertising Expenditure (ADEX) based on rate-card value, reported a 17% drop in 1998 against 1997 total year-to-date ADEX of RM2.6 billion.

Charts 1 and 2 in Appendix A contain total ADEX for 1997 and 1998.

Graph 1 in Appendix A contains ADEX Trend for 1994 – 1998.

Cinema appeared to have weathered through the 1998 challenges and emerged as the only gainer with a growth of 15% over 1997. Newspaper, which had been dominating two-thirds of the ADEX-pie in 1997, experienced a more significant drop of 20% compared to a 10% drop in Television ADEX. Television ADEX held one-third of the total industry ADEX.

Other media that registered losses in 1998 were Radio and Magazines, down 22% and 19% respectively. It was, however, reported that the drop in Radio ADEX was partly brought about by unavailability of data for a full computation of total Radio ADEX. Dips in Video and POS Ads (Point-of-Sale) ADEX were less significant – down only by 4.3% and 1.1% over 1997 respectively.

Table 1 in Appendix A contains total share of voice in terms advertising expenditure across media for 1998.

ACNielsen observed that the PAY-TV channels had drawn a notable level of ADEX in 1998. These, together with Outdoor ADEX were currently not captured in the ADEX Monitoring System. Expenditure in these media could well have grown at the expense of others. Table 10 in Appendix C contains information on consumer media habits.

ADEX Trend: Top 10 Categories – 1998 over 1997

Real estate and Tour and Travel Agencies were among the top category spenders in 1997 affected by the economic crisis as both these categories lost their top 10 status in 1998.

Boosted by major sporting events in 1998 such as World Cup France 1998, Kuala Lumpur '98 Commonwealth Games, the Sports/Sporting Goods category emerged as one of top 10 spenders in 1998, registering a growth of 74.3% in ADEX.

Other top categories that registered growth in 1998 were:

1. Entertainment/Franchise - +13.3%
2. Corporation, Government Agencies, Utilities - +11.6%
3. Educational/Book Stores - +5.3%
4. Entertainment, Lounge, Cinema, Leisure - +6.0%

Though they maintained their top 10 status, print-oriented categories such as Classified/Appointments, Telecommunications/Telephones, Banks/Credit Card/Security Companies, Communication/Publishing and Departmental Stores/Emporiums registered double digit losses in 1998 ranging from 23.8% to 46.7%.

Notably the worst hit in 1998 were Communication/Publishing and Classified /Appointments with ADEX down by 46.7% and 30.9% respectively. Charts 3 and 4 in Appendix C contain advertising expenditure for Top 10 Categories – All Media, 1997 – 1998 and advertising expenditure for Categories with Significant Increase in 1998 ADEX, respectively.

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Appendix

Section 1 – The Case

Appendix A

i) Graph 1 – ADEX Trend: 1994 – 1998

ii) Table 1 – Advertising Share of Voice Across Media for 1998

iii) Chart 1 – ADEX for 1997

iv) Chart 2 – ADEX for 1998

Appendix B

i) Tables 2,3 & 4 – Actual Billings: 1997 – 1998

ii) Table 5 – Forecast: 1999 – 2000

iii) Tables 6 & 7 – Financial Statements: 1997

iv) Tables 8 & 9 – Financial Statements: 1998

Appendix C

i) Chart 3 – Top 10 Categories – All Media (1997 vs. 1998)

ii) Chart 4 – Categories with Significant Increase in 1998 ADEX

iii) Table 10 – Consumer Media Habits

Section 2 – Case Analysis

O Detailed Explanation of all Variables (SWOT Analysis)