

Why did saatchi and  
saatchi decline?



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Companies need a competitive advantage in order to survive. Saatchi & Saatchi did not overtly identify their creative advantage. It was, probably, their ability to produce original and creative advertising, but this has not been highlighted in the case study. Their management did not identify how they would maintain their competitive advantage, through their acquisition spree, nor did they identify other strategic choices to maintain their competitive advantage, for example organic growth and the development of in-house creative skills.

Saatchi & Saatchi's success was due to their understanding of specific markets and creative advertising, however as they grew they seemed to lose touch with what their multinational customers wanted, for example; no conflicts with competitors and the multinational customers lack of interest in the consulting arm.

Saatchi & Saatchi had a policy of acquiring other businesses in order to grow into an 'all communications' business. Saatchi & Saatchi bought many competing advertising agencies without any obvious plan, other than to grow. This led to concerns of confidentiality from their main customers, Procter and Gamble and Colgate-Palmolive (Mintzberg, 2003), which in turn caused the loss of a significant amount of the company's advertising revenue.

The departure of the top company financial executive was a blow to the struggling company; his departure signalled the loss of vital knowledge and was the first sign of managerial decline. This lack of expertise was confirmed when Saatchi & Saatchi bought Ted Bates for an 'exorbitant' price

(reference the paper). The financial executive role was not replaced, which left a void between management and shareholders, giving the distinct indication that Saatchi & Saatchi 'were interested in other things besides Saatchi and shareholder value' (Mintzberg, 2003) and did not have a coherent strategy, as one might expect that a chief financial officer (CFO) was critical to an acquisition strategy. This will have hit shareholder confidence hard.

Saatchi & Saatchi did not appear to have addressed how they would manage their expanding global business and in turn how they would achieve synergies through scale, which is normally part of a global strategy. Rather the reverse, they seem to have left the acquired businesses to run themselves, with earn-out periods, which would lead the existing management to strive to make short term profits for their own benefit rather than help build a global business.

The next step in their downfall was the attempted bid for the two British banks. This move was completely disconnected from any strategy to build an 'all communications' business. This must have signalled to the market and to shareholders that they had no coherent strategy and a distinct lack of focus. The fact that it ultimately failed may have also signalled to shareholders the managerial weakness of not having a CFO. This lack of shareholder confidence continued to grow, which, coupled with the reducing share price, signalled the downturn of the company.

Saatchi & Saatchi had relied on its high stock price, and a weak dollar for its growth in the 1980s. Without these catalysts Saatchi & Saatchi's first half year profit of 1989 was set to decline by 40% (Mintzberg, 2003).

**(b) What would you have done differently at Saatchi & Saatchi to avoid the downturn at end of the 80s: “ pause for breath in... growth”?**

The Saatchi & Saatchi strategy was always to be the biggest, and didn't seem to go much further than that. This very vague strategy left the business with little direction to move in, and simply appears on paper to have bought a range of random companies in a short space of time in order to become the biggest. Saatchi & Saatchi were attempting to grow the company through acquisitions, but this type of growth has associated problems. High staff turnover in particular is noted in the case study as a plaguing problem. One might expect that the creative skill of the staff in an advertising business was a key asset and losing staff is effectively losing competitive advantage, so it is not surprising that this signalled the decline of the business. These people issues are common in acquisitions with high rates of management turnover associated with poor acquisition performance (Hambrick & Cannella, 1993) and the possibility of a culture clash (Child et al, 2000) Can't find reference!!!.

It should have been a key part of their strategy to communicate with their staff, to identify their vision for the future and what would make their business successful and why it would be a great place to work, when one looks at (Mintzberg, et al. 2003) strategic leadership charts, it seems that Saatchi & Saatchi had more ego involved in running of the business than

anything else. As Part of strategic leadership or a ‘ leader as designer’ (Jha, 2010) a leader of the company must follow; ‘ Provides ideas that govern organization, Crafts purpose, Develops vision and Forms core values’ (Jha, 2010). In the case of Saatchi & Saatchi, it seems that as they sort to grow the company at such a fast rate, they lost sight of these values, which is why the company ultimately failed.

Strategic leadership is particularly crucial in a people business, where the skill of the staff is the only asset. In other businesses such as manufacturing you are simply selling a product, the manufacturing line is very easily replicated to make the final product. In advertising you are selling the skills of a team of people. It is not possible to teach an entirely new person how to advertise in a short space of time; this shows the importance of having a team of high skilled people who are able to come into the new advertising businesses and initially help the change over period while the new business aligns itself with the Saatchi & Saatchi way of thinking.

Statistics show that over 60% of acquisitions’ in closely related sectors failed (Porter, 1987). The Saatchi brothers were taking a massive risk purchasing so many companies in such a short space of time. This stretched their resources very thinly, and left them in dire need for cash. The fact that their acquisition strategy did not appear to address how they would manage and integrate the new acquisitions to form a global network, left them without a plan to achieve short term profit improvements, normally key to the success of acquisitions (McGovern, 2010). Their poor profitability forced them to a distressed sale of their consulting arm. This put them in a bad position for negotiating with firms interested in purchasing the consulting group that led <https://assignbuster.com/why-did-saatchi-and-saatchi-decline/>

to Saatchi & Saatchi finally selling their consulting arm for about £150 to £200m (Mintzberg, 2003) less than they thought it was worth.

If they had had a plan to deliver short term profitability it would have given them longer to assess the options for the consulting arm. This could have led to a better sale process, realising more value, or a proper integration of the acquired business.

## **2. Discuss how Saatchi & Saatchi has approached the balance between globalisation and localisation, and what could be done to improve it?**

Saatchi & Saatchi's approach to globalisation was to provide a 'one stop shop' (Mintzberg, 2003) for all communication services for clients already using Saatchi & Saatchi. How they intended to achieve this, other than by owning a portfolio of marketing services companies, is not clear in the paper. Their aim was to encourage clients of their advertising agency to outsource their direct marketing, public relations and market research to their 'one stop shop'. Saatchi & Saatchi should have had as part of their strategy the local execution of their 'one stop shop' idea, to perfect the idea in a local market. The chart below (ref: ) shows how an international business strategy evolves. Saatchi & Saatchi would be sighted initially in the bottom left as a UK based advertising agency. If, their true goal was to develop a global 'one stop shop', they should have included how they would perfect the model in their lead market, the UK and a structured way to role the model out into other countries, ie moving from bottom left on the chart to top left. The acquisition strategy did not address this and organisationally they had not addressed how they would manage the evolution from bottom left to top left

and had not even mentioned how they would move to top right, the truly global position.

They were acquiring companies with no sure model of how the 'one stop shop' would work, nor how they would effectively manage global client conflicts. This leads one to believe that to a certain extent Saatchi & Saatchi were simply making decisions as they went without any real strategy.

Saatchi & Saatchi had acquired a lot of different companies operating in different countries but they had not built a coherent network that could offer their 'one stop shop' concept, for example their media services company did not operate in the United States (Mintzberg, 2003), which limited their international appeal, particularly as most international companies will target the US as it is the biggest economy. Saatchi & Saatchi had not even built a 'one stop shop' in a local market, so they did not have a local strategy that they were trying to extend globally.

Companies often go global to avoid political or financial risk (McGovern, 2010), in Saatchi & Saatchi's case their move into the global arena actually increased the risk due to the way they financed their acquisitions and the lack of clarity in their strategy.

There is no mention in the case study of any competitors at all, or how Saatchi & Saatchi expect to compete. In order to win contracts over other advertising companies Saatchi & Saatchi must offer something no other competitor can and their 'one stop shop' must be at least as good as the existing clients' current provider. However the companies that Saatchi & Saatchi acquired were not top players in their markets (Mintzberg, 2003).

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Exhibit 9 in the paper shows that the non-advertising companies were number 6 or less in the market, so without development, which was not addressed in the strategy, it is not clear how they intended to build them into a 'one stop shop'.

The companies acquired (Exhibit 9) might lead one to presume that Saatchi & Saatchi were trying to build a network to service major clients like P&G and Philip Morris. However, throughout the client list in Exhibit 9 there are major account conflicts, eg BAT & Philip Morris that would make their 'one stop shop' difficult to execute.

Exhibit 9 also shows that their acquisitions were mainly mid-sized and with limited global reach. The largest Bates only brought a number 6 slot in the USA (Exhibit 8). The acquisition strategy was therefore delivering neither a 'one stop shop' nor a global reach.

The acquisition strategy also brought with it a number of client conflicts. This forced Saatchi & Saatchi to set up a dual agency approach in order to get round the problem of offering advertising to competing companies. This was not envisaged initially and must have added to their costs and although a solution to a problem, this goes against the integration benefits which would justify similar company acquisitions.

It appears that Saatchi & Saatchi's only desire in the global market place was to be the biggest, glorified empire building if you will. There doesn't seem to be any rational behind the companies that they purchased. If they were aiming to be the best in their field, one would assume that they would acquire companies which were the best in their field, i. e. the new consulting



arm of companies. However from the case study it seems that they simply bought whatever companies were available. The very fact they bid for two British banks shows that they had no direction other than being big; the banks would have played no part in their business and simply highlights their confused demise.

### **3. Critically evaluate Robert Louis-Dreyfus' strategy to turnaround the company.**

In order to decide whether a company is worth saving, several questions need to be answered. Is the company worth saving? – Saatchi & Saatchi seemed to assume the company was worth saving as the company appears to be a reflection of the whims and desires to be seen as the biggest. What is the current operating health? – this was not addressed at all in the case study, one would assume since the operating profit had dropped by 40% (Mintzberg, 2003) that the operating health of the company was not particularly good and costs were too high. Exhibit 5 shows that in the last two years costs had risen by 17% but revenue had only increased by 14% (Mintzberg, 2003). Finally the last question 'What is the current strategic health of the company?' – There is an implication in the case study that the consulting arm is seen as non-relevant hence the quick sale of that arm, however there is no clarity to this which leads to poor sales timing and lack of value to share holders. There are different operating turn around strategies available: Cost reduction strategy, Asset reduction strategies, Revenue generating strategies and Combination strategies (Hofer, 1980). From the case study it is not clear which strategy was chosen to turn the company around, apart from the sale of the consulting arm.

In terms of retrenchment, Saatchi & Saatchi shows little evidence of retrenchment which would have been necessary given that the company was in a steep decline.

In Saatchi's case problems arose because of poorly defined acquisition strategy and probably poorly executed integration of businesses acquired to form a ' global marketing services company'.

In 1990 Louis-Dreyfus dismissed two senior managers (Mintzberg, 2003); this gave shareholders more confidence as it is a sign that he is in full control of the company, and is fully able to make tough decisions in the best interest of the shareholders. If nothing else this was a good move as it provided the first upward movement of the company's share price since the initial downturn.

Although Louis-Dreyfus implemented a recapitalization plan and sold the consulting business the margins continued to fall; This would indicate to me that the market was not interested in this ' one stop shop' of communication services and would be better to return to the core advertising services in order to increase the currently shrinking margins.

#### **4. Provide advice to Maurice Saatchi on his musings at the close of the case: would rededicating the company to the principles of creativity that had built it in the first place be enough to get it out of the red?**

A return to creativity might go somewhere to improving the company's performance, a return to core values would indicate to shareholders that the company had a focused view on the direction in which they would like to move towards in the future. This would reassure shareholders and investors,

improving the likelihood of receiving credit and extensions on loans.

However, this said, Saatchi & Saatchi have a massive burden of many mismatched companies to support which are losing money on a daily basis and this must be addressed by a rationalisation strategy. A return to creativity on its own would not stop the losses continuing and given the poor state of the company's finances they may not survive.

The concept of returning to creativity is a way of trying to improve the advertising offering of the company in an effort to improve turnover, ultimately it is only an improvement in profits that will get Saatchi & Saatchi out of the red.

If shareholder and market confidence is improved this will help to improve the company's health on paper, a return to creativity or core value will remind the market what made the company great but an improvement in profitability is key to improve the market's perception of the company's recovery plan.

Although the company has not shown a decline for 3 years or more a turn around strategy is still needed. Since Saatchi & Saatchi have been acquiring businesses at a rapid rate, this has been masking the true extent of their underlying business issues. At the time of decline Saatchi & Saatchi had acquired more business than the bottom line of Saatchi & Saatchi could support. In order to correct this Saatchi & Saatchi should concentrate on providing services to a few key markets, instead of attempting to follow the global strategy. By concentrating on a few key markets Saatchi & Saatchi are better distributing their dwindling resources in the most effective way. By

building the business up in these key markets and strengthen the balance sheet overall, it will hopefully allow Saatchi & Saatchi to move to less profitable markets once the business has recovered sufficiently to allow it. In terms of the requirements of a turnaround strategy the replacement of the chief executive and top managers was carried out (McGovern, 2010) and a culture change (McGovern, 2010) through returning to 'creative values' all go to prove that the company was undertaking a successful turnaround strategy. The handing over of the advertising business to preferred shareholders will have gone some way to 'establish and communicate credibility with stakeholders' (McGovern, 2010), which is a key point in a recovery strategy.