

Ogilvy and mather and its competitive strategy for the next four years



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DO NOT ENTER TYPE OR CHANGE PAGE 2 your marked project will be returned via your ECU email address. FAMILY NAME OTHER NAME STUDENT NUMBER LYONETTE YOUR ECU EMAIL ADDRESS UNIT CODE AND TITLE MBA5627 PRINCIPALS OF ECONOMICS STUDY MODE BY COURSEWORK YOUR PROJECT BUSINESS NAME OGILVY & MATHER AND ITS COMPETITIVE STRATEGY FOR THE NEXT FOUR YEARS I HAVE READ AND FOLLOWED PROJECT INSTRUCTIONS (MARK BOX WITH AN X) YOUR PROJECT WORD COUNT 2818 YOUR ABSTRACT WORD COUNT 100 REMEMBER to save your project using the filename format shown in the examples below SMITH John 0123456 MBA5627 Project S1 2008 CHEN Chunmei 0987654 ECF5600 Project S2 2007 PATEL Rajiv 007007 MBA 5607 Project S2 2008 MWESI Cholo 0333444 MBA 5627 Project S2 2006 PROJECT ASSESSMENT FEEDBACK Title Using the analytical tools developed on this unit, conduct an economic environment analysis of a business you have selected for study and suggest a competitive strategy for that business to cover the next four years. Margin abbreviations A / V / U – Avoid this usage / This is verbose / This statement not clear / Ambiguous D – Needs definition NS / No! – Statement is a non-sequitur – i. e. logically incorrect / Statement is factually incorrect R – Repetition – this point already made S? / Ref! – Reference / Source for this statement? / Citation is incorrect or incomplete Sp / P / PE – Spelling error / Punctuation error / Poor expression – see writing skills advisor T – Title for table, appendices or graph required This assessment task (AT) is graded under the following headings: (1) instructions & guidelines; (2) knowledge of

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economic concepts & theories; (3) discovery & use of economic data; (4) application of economic analysis; (5) standards & conventions: referencing; avoidance of plagiarism, expression; presentation. Summative Comments – see also inked in-text comments Mark: Instructor Comments Content 1.

Project title.....	p-4 2.
Abstract.....	p-4 3.
Introduction.....	
. p-4 4. Overview of business: Product, Market, Value Creation.....	p-4
5. Business costs in the short and long run.....	
... p-5 6. Market Structure: Competitor and Regulators.....	p-6
7. Macroeconomic Environment 1: The Business cycle.....	p-8 8.
Macroeconomic Environment 2: Marco Policy, Interest Rates and Taxation.....	p-9 9.
International Environment: Global Business conditions and Exchange Rate.....	p-9 10. The
Driving Forces.....	
.. p-10 11. Competitive Strategy for the next four years.....	
p-11 12.	

References..... p-12 1. PROJECT TITLE Ogilvy & Mather and its competitive strategy for the next 4 years . ABSTRACT/EXECUTIVE SUMMARY As an advertising agency Ogilvy & Mather India has a high ranking in the Indian advertising industry. The paper studies the company, its services and its place in the industry.
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The paper analyses and defines its market structure as one of oligopoly. It is seen how the state of the economy effects a large company like O&M and how monetary and fiscal policies affects its revenue and expenditure. By studying the market structure, economy and the companies driving forces a competitive strategy for the next four years is suggested in order to give O&M a better stand in the market. . INTRODUCTION The aim of this project is to study the economic environment of the Advertising Industry in India using the company Ogilvy & Mather as the main focus. The various economics aspects which affect a business such as product, value creation, costs, competition, business environment etc will be discussed.

An analysis of the market structure define the position of the company and the study of the economy tell us how the company is affected and the best strategy for the chosen company for the next four years will be outlined. 4.

OVERVIEW OF BUSINESS: PRODUCT, MARKETS, VALUE CREATION 4. 1 About the Company: Ogilvy & Mather is one of the largest marketing communication networks in the world, dealing with multinational and national brands in a number of regions. It is a subsidiary of the WPP group and has numerous offices all around the world; however in this project the main focus is on the Ogilvy & Mather (O & M) Indian branch.

O & M was the first advertising agency India, having been in the business for the past 80 years it provides the core service of building and nurturing enduring brands (“ Ogilvy”, n. .). 4.

2 The Main Product: Ogilvy & Mather started as an advertising agency providing the basic services of advertising but today the services provided

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by the company include Advertising, Direct Marketing, Public Relations and Activation. Ogilvy Activation Includes services in the so called non-traditional area of advertising. As of 2004 advertising by the company recorded around 70% of the revenue in India (“Ogilvy & Mather India Ltd”, n. d.).

4. 3 How Does it Create Value: The company creates value in two ways:

Reduction of transaction costs – When compared with other companies O & M follows a strategy called the 360 Degree Branding approach. This approach covers all aspects marketing communications; it's when all media contribute towards the campaign and the building of a brand. It provides all the key services the companies are looking thus saving the companies the trouble of having to approach different agencies for different services. This saves the clients through economies of coordination, reducing costs of searching for specific skills and services.

Changing perceptions of perceived benefits – Ogilvy & Mather is a brand name that has been around for more than half a century. Over the years it has helped build some of the most successful brands in India e. g. Asian Paints, Cadbury etc. Since the main function of the company is advertising its influences customer behaviour by changing perception. Having a client base which included companies like Hutch, Perfetti etc has positioned the company to be one of high repute, hence clients perceive benefits of higher value.

4. 4 Market Dimensions: The Indian advertising market has grown considerably over the years, the 13, 200 crore (13. 2 billion) industry has grown from the initial slump in the beginning of the decade, it saw a 14. 1%

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growth over 2005 (“ Ad Lib: On campaign trail” n. d.), the industry saw a double digit growth over the next two years.

In 2007 the Total electronic media revenue alone was 6100 crore (6. 1 billion) (“ Budget 2007-2008”, n. d.).

Ogilvy & Mather have a large market in India, however it enjoys a global presence as well. It offers creative and non creative services to the company worldwide. Some of its international projects include offshore design and packaging work, commercials for Perfetti’s products and creative work for international brands like Coca-Cola, Fanta, Sprite and Singer. 5. BUSINESS COSTS IN THE SHORT AND LONG RUN Brand building or advertising agencies like most other businesses, are multiple -product firms. “ An Agency’s costs may depend on how their clients allocate their advertising budgets across media and there is considerable variation in media mix among agencies.

”(Schmalensee, Silk & Bojanek, 1983). Difference in media mix contributes to a great extent to how different agencies can lower their costs of production. The advertising and brand building industry is one which is labour intensive in nature. In such firms value creation is knowledge, skill and creativity intensive and is delivered by highly creative and skilled employees. As a marketing communications firm O&M create value by building the non tangible aspect of the brand. Output and quality in such a firm depends on human creativity and ideas.

It is the understanding of brand positioning by the human element that determines the quality and effectiveness of the product. Typically an

advertising firm would incur costs such as television billings, costs incurred <https://assignbuster.com/ogilvy-mather-and-its-competitive-strategy-for-the-next-four-years/>

on business publications, point of purchase, newspapers, internet, direct mail farm publications etc. Changing the scale of business: Changing the scale of production in the short run would mean being able to change the variable factors of production. In the case of Ogilvy & Mather changing the scale of production in the short run would mean being able to increase the duration of its contracts, bring in more skilled people like creative designers, copywriters etc. It would take the company a period of three to four months to change its scale of production in the short run.

In the long run Ogilvy & Mather are able to increase the number of contracts and open new segments e. g. Ogilvy One. In the long run the company enjoys a constant return to scale.

Since it receives commission and fees directly in the same proportion as the number of contracts it undertakes the returns to scale is also in the same proportion. It would take the company more than a year to change its scale in the long run. 6. MARKET STRUCTURE: COMPETITORS & REGULATORSTo analyse the market structure in which the company operates we use Michel Porters five force model. Michael Porter's " Five Forces" Analysis Model 6. 1 barriers to entry: •Investment – In a large industry like advertising where there are many big players who command more than 50% of the market share it becomes difficult for another company to enter, since a large investment will be required.

- Highly skilled and creative employees – In a business like advertising a highly skilled, intellectual and creative team of people is required. It is not only difficult to find and employ such a team of people but is also difficult

to compensate them as employees of such high calibre are at the higher end of the pay scale. •Brand name and customer loyalty – O&M have been in the advertising business for more than 70 years, they have created a power brand of high repute. They command high customer loyalty and provide an array of high quality services thus making it difficult for new entrants.

•Network effect – The advertising industry is one in which there is a high level of business networking since most of the clients are other bigger companies. Competing players may have difficulties entering a market where a strong player like O&M has already captured a significant user base.

•Sunk costs – Sunk costs cannot be recovered if a firm decides to leave the market, they therefore increase the risk and deter entry. •Acquiring big

companies: In an industry like advertising those companies stand to gain who get the so called bigger deals, i. e. agencies with big companies like Cadbury or Hutch as clients command a better position in the market, it is difficult for new companies to gain such clients. . 2 Rivals: competition among existing companies In India many companies exist in the advertising industry, however only a few big companies are able to provide the service on the scale and complexity which can be comparable with that of O&M.

India has a lot of Advertising agencies but only a few big companies contribute to the total revenue, Ogilvy & Mather recorded the highest capital billings of 7425. 78 million while Saatchi & Saatchi was the lowest at 937. 54 million (“ top Indian advertising agencies”, n. d.

) 6. 3 Bargaining power of buyers Big companies like Cadbury, Coca-Cola, Asian Paints etc are clients or buyers of the services the advertising agencies

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provide. Since they are looking for top quality services and Brand building, costs are but a secondary issue to them. They have a good bargaining power.

However the advertising agency like Ogilvy & Mather have a brand name and a high reputation hence they also have a good position where they can negotiate.

6.4 Bargaining power of suppliers the suppliers would include all forms of media, creative designers on contracts, technology suppliers, studio works etc. O&M have a good bargaining power since they are one of the big player in the market.

6.5 threat of substitute Ogilvy & Mather offer high quality services but with other huge players like Lowe Lintas, McCann-Ericsson etc operating in the market there is always a threat to the company, when clients undertake mergers or acquisitions they may seek another agency to do their work e.

g. O&M were kept in the avcume when one of its big clients Hutch was in the process of being taken over by a bigger player Vodafone.

6.6 Market Structure Ogilvy & Mather will be considered as an Oligopoly. In spite of Advertising being a monopolistic competition in this case it is an Oligopoly, the reason being that its is a very large company and faces stiff competition from not more than 7-8 companies, it is these big companies that contribute to more than 75% of the industries revenue.

7.

MACROECONOMIC ENVIRONMENT (1): THE BUSINESS CYCLE

7.1 The business cycle The Indian economy is currently in the upswing phase of the business cycle ("3 I's" for 2008", 2008) the three reasons cited for the Indian economy to be in the upswing phase are:

- Investment – it has propelled the growth performance of the past four years, building on a solid foundation of

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consumption spending. “ Gross fixed capital formation, a measure of the increase in productive capacity of the economy, crossed 30 per cent of GDP for the first time, after hovering in the high 20s for several quarters. ” (“ 3 ‘ I’s’ for 2008”, 2008) •The Corporate sector has seen growth in productivity and profitability under the combined impetus of consolidation and capacity expansion.

A growth of country’s infrastructure also suggests that the economy is in an upswing, Mega power plant bids by the Tata Group and the Reliance Energy vouch for the same. Although the economy is in an upswing it is facing some short term fluctuations, as we can see in the diagram below than the real GDP has fallen in the 3rd Q of 2007-2008 as compared to the 1st Q, since the US economy has slowed down it appears to be a trickledown effect (“ Can India cope with economic slowdown”, 2008). (“ The Real Economy”, 2008) 7. 2InflationIn an economy all companies are affected by the business cycle, as the economy is in the upswing the country is faced with the challenge of high inflation, Inflation in India currently stands at 7. 4% (“ Macroeconomic and Monetary Developments in 2007-08”, 2008).

At present the decline in consumer spending is taking its toll on the fortunes of the advertising industry. Inflation has forced agencies to settle for abysmally low margins. Compared to last year, margins have shrunk over 60% this year (“ Blame it on Inflation, Ad margins shrink 60%”, 2008 8.

MACROECONOMIC ENVIRONMENT (2): MACRO POLICY, INTEREST RATES & TAXATION The government of any country helps control the economy through it fiscal and monetary policies, the main areas of interest are the interest rates and the taxation.

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Interest rates and taxes affect all business in the economy. 8. 1 Interest Rates According to reports by the Reserve Bank of India the prevailing interest rate is around 6%. The Federation of Indian Chambers for Commerce and Industry (FICCI) blamed the tight monetary policy of the government for the slowdown of industrial growth. The FICCI has suggested a downward revision of interest rates, this would help in the stimulation of demand and would ease the cost pressure on the manufacturing sector (“ FICCI blames high interest rates for industrial slowdown”, 2008).

When interest rates are hiked investment is reduced by big companies as a result of the trickle-down effect other companies are affected. In the case of O&M when its clients e. g. Lenovo reduces its investments it will slowdown and as a result it will squeeze its margins with O&M.

8. 2 Taxation Some sectors in the economy seem to be under a greater tax burden than the other, e. . the telecom industry in India is facing various kinds of levies and tax (“ Telecom Firms and Budget 2008-2009”, n.

d.), they in turn may cut costs and adjust their finances to shoulder this tax burden and in turn reduce their expenditure on advertising, in such a case companies like O&M stand to lose. 9. INTERNATIONAL ENVIRONMENT:

GLOBAL BUSINESS CONDITIONS AND EXCHANGE RATES Ogilvy & Mather

India has expanded its boundaries and now have international clients as well, some of its foreign clients include Perfetti (Italy), Lenovo (China), Coke (US).

Having foreign clients means involvement of the exchange rate. Currently the Indian Rupee is trading for 42. 77 US dollars. Ogilvy & Mather do

commercials as well as other creative work for these brands hence costs and <https://assignbuster.com/ogilvy-mather-and-its-competitive-strategy-for-the-next-four-years/>

payments are affected by the exchange rate. If the Indian rupee were to appreciate then it would be dearer for O&M's international clients. Trend of the Indian Rupee against the US Dollar 10.

THE DRIVING FORCES 10. 1Internet Advertising – today the internet accounts for a large portion of the advertising budget, it is easily accessible and convenient. It has become a part of the media mix for all advertising agencies and can now be considered as one of the driving forces. 10.

2Globalisation – With companies going global they are trying to reach out to a larger and more diverse market, if the key message of the company and its USP is not carried to the public in a proper manner the brand could be affected. O&M not only does advertising for such companies but also does brand building, public relations etc. More over is has to always reinvent is creative aspect to meet global standards. 0.

3Creative Team with international exposure – advertising, promotion, brand building etc cannot be effectively achieved without a creative team, creative designers, art directors etc all form part of this creative team. This intangible aspect of the business is called talent and creativity. 10. 4Clients and the general public – today customers and consumers rule the market, it's all about what they want and what they think, studying consumer behaviour is important for any company. Advertisers always have to keep the attitude and sentiment of the public in mind when creating ads. 10.

5The state of the economy – the state of the economy is also major driving force since the income and expenditure of companies like O&M depend on how much their clients are able and willing to spend on advertising and <https://assignbuster.com/ogilvy-mather-and-its-competitive-strategy-for-the-next-four-years/>

promotion. Companies make such budgeting decisions based on the state of the economy. 11. COMPETITIVE STRATEGY FOR THE NEXT 4 YEARS The country is currently in the upswing stage, the Advertising industry has come a long way where growth is concerned. It recorded a 22% growth over the previous year (“ India to increase advertising expenses by 2010, Assocham, 2007), in the past 6-8 months advertising rates have risen from 30 to 40 percent (“ Empires rise again on the news-stands of India”, 2008).

Ogilvy & Mather are among the top three advertising agencies in India and it is doing a lot to maintain its position. Ogilvy & Mather have combined with GroupM to form an even bigger Out of Home Business, it is the largest outdoor planning and buying specialist group in India called Kinetic” (“ Ogilvy & Mather consolidates outdoor business with Kinetic”, 2006). Ogilvy & Mather Advertising has also taken upon its shoulders the task of building up the momentum for the much hyped about Indian Premier League (IPL) with a series of Ads (“ The big branding game plays out on IPL pitches”, 2008).

Since it appears that the company is still growing it should 1) focus on consolidation and opening of new branches there by trying to stay at the top position by reducing competition.) Now that O&M India has gained a foreign market it should try to increase the number of foreign clients and expand its markets overseas as well. This will increase its international exposure.

3) In the case of O&M the city Bangalore in India has become the global hub for Lenovo, similarly the company should try and acquire big brands as clients and make the country the global hub for that particular brand. Since outsourcing has become the buzz word it could also open a branch that does creative work and designing for international companies there by acquiring <https://assignbuster.com/ogilvy-mather-and-its-competitive-strategy-for-the-next-four-years/>

more foreign clients. With increasing production and setting up of new companies in the economy there is always a market for brand promotion, advertising and marketing hence O&M have a promising future, however it will continuously have to reinvent itself to suit customer needs and combat competition. 12.

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