

**A STRATEGIC ANALYSIS OF THE CHINESE ADVERTISING INDUSTRY
AND WPP'S BUSINESS PRACTICE IN CHINA**

by

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Abstract

This paper presents a strategic analysis of China's advertising industry for the WPP Group. The paper researches the business environment for WPP's business in China, determines its competitive position in the industry and crafts strategies for company growth and expanded market share.

An industry analysis is conducted to determine the key success factors for firms that compete in this industry. The strengths and weaknesses of WPP are analyzed, and the strategic position of WPP is presented to identify the strategic alternatives. Competitors are compared to explore the opportunities and threats for WPP's marketing services in the highly competitive environment.

Several criteria are established to evaluate the strategic alternatives based on the environment: management preferences, organization and resources. An alternative assessment and internal analysis are conducted to choose the strategy, and a recommendation is concluded for the WPP Group.

Keywords: China; Advertising; Marketing; WPP.

Dedication

This thesis is dedicated to my husband, Michael, and to my parents, with my gratitude for their support, encouragement, and inspiration throughout my study.

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1: INTRODUCTION

This introductory chapter outlines the purpose and scope of the project, provides an overview of the Chinese advertising industry and the world's second largest communications services group, WPP, and identifies its current business strategies in China.

1.1 Purpose and Scope

The purpose of this paper is to analyze how WPP should plan to manage its growth and whether WPP should change its strategy from Differentiation to Low Cost for the entire advertising industry in China.

This paper will use Porter's Five Forces Model to study the industry this company is serving, and to analyze key success factors (KSFs). The competitive analysis of the main competitors will be explored to identify the opportunities and threats for WPP's growth in China and used to clarify WPP's competitive position in the advertising industry in China. This paper will propose strategic alternatives that would increase competitiveness within the industry and apply the Diamond-E Framework (Crossan et al,

2005) to evaluate these strategic alternatives based on the company's ability to implement strategies using existing or obtainable internal capabilities, and to recommend solutions to assist WPP to build its competitive advantages in China's market.

1.2 Advertising Industry in China

China has become one of the major markets in the future growth of the world economy. With 1.3 billion consumers in China and a growing middle class, none of the key global players in the advertising industry would neglect the growing market.

According to GroupM (2008), "last year China overtook Germany to become the world's third-largest ad market behind the U.S. and Japan."

The Chinese advertising market is substantially different from most markets. China is not yet dominated by the huge global advertising agencies that are the leading players in Western advertising markets (Datamonitor, Advertising in China Industry Profile, 2008). The market is composed of many small private Chinese companies and a small number of large Multinational Advertising Agencies (MNAAs). According to statistics from the Administration Bureau for Industry and Commerce of China (Cai, 2009), there are 185,800 companies competing in the market and employing 1.2 million people. The advertising industry consists of agencies providing a range of communication

services including advertising strategies, planning and related creative services, and placement of advertisements in various media. Their services may also include sales promotion, interactive communications, brand management, public relations, direct marketing, market research, and e-solution services.

According to Cheung & Leung (2007), the “Majority of the multinational companies went through four stages of development in an incremental process: an initial or introductory stage, a direct participation or involvement in China stage, the establishment (of a joint venture) stage, and a network expansion stage.” Since wholly owned subsidiaries in advertising have been permitted since Dec 10, 2005 (an accession to the WTO by China) and the advertising market completely opened up at that time, some multinational advertising groups have taken action to purchase various local companies. Those MNAAs formed into international networks, coordinated into holding groups at the global level, and engaged in joint ventures on the local scene through serving not only the global advertisers whom they came to work for, but also increasingly serving the major Chinese companies. The top five world advertising groups have established 38 branches via joint ventures in China as of May 2006: 19 of them are under the WPP Group, five are under the Omnicom Group, six are under the Interpublic Group, five are under the Publicis Group and three are under the Dentsu Group (Sinclair, 2008).

Associated with China's rapid GDP growth, the Chinese advertising market experienced a 9.9% growth to achieve a value of USD 5.9 billion in 2007 (Datamonitor, Advertising in China Industry Profile, 2008). In 2008, despite the financial crisis and the global economic downturn, China's advertising industry still managed to maintain a 9.11% growth rate, which was driven by the huge expenses for the 2008 Beijing Olympic Games (Cai, 2009). Small private Chinese firms grew fast in 2008, with the number increasing by 9.53% and revenues growing by 21%. They account for 32.53% of the market's revenue in 2008, increasing from 29.33% in 2007 (Cai, 2009). So, by inference, the MNAs achieved lower than average growth because they mostly serviced Multinational Companies (MNCs) accounts and MNCs were cutting back due to the global recession. The Chinese Advertising industry is projected to have a value of \$11.2 billion in 2012, which is an increase of 88.5% from 2007 (Datamonitor, Advertising in China Industry Profile, 2008).

Advertising for the food, beverages, and personal/health care segment forms the most remunerative segment of the Chinese market, with a 37% share of market revenues. Retail advertising generates a 10.4% share of the market's value. Financial services occupy an 8.6% market share, and the automotive industry generates 5.2% of market revenues (Datamonitor, Advertising in China Industry Profile, 2008).

Taking into account the advertising expenditures, local advertisers are strongly represented and take a bigger percentage of the market. As Exhibit 1.1 shows, in 2005, half of the top ten advertisers were Chinese, and half Western-based. Two of the major Chinese players are the Haoyao Group, a Chinese pharmaceutical corporation, and Stone Group Holdings. Stone Group's Naobaijin tonic is one of China's most popular health care brands. These health and personal care FMCG brands are representative of the leading categories of advertising expenditures in China's recent years. (Sinclair, 2008)

Exhibit 1.1 – Top ten advertisers in China by US dollars in millions

Advertiser	2005	2004	% change
Procter & Gamble Co.	\$890.8	707.3	25.9
Haoyao Group	382.3	317.6	20.4
Unilever	212.6	124.1	71.3
Stone Group Holdings	154.1	124.7	23.6
Colgate-Palmolive Co.	114.8	61.7	86.1
China Mobile Communications Corp.	114.6	89.4	28.2
Yum Brands	75.6	54.6	38.4
L'Oreal	75.4	52.7	43.1
Lafang Group	70.5	53.6	31.4
Arche Group	66.9	93.6	-28.5

Source: Advertising Age's 20th annual global markets, 2006

Since the fourth quarter of 2008, many large multinational advertisers have cut advertising budgets in China's market due to the economic downturn in their home countries. As of January 2009, the advertising expenditures for cosmetic/personal care,

pharmaceutical products, real estate/construction, and for the automotive industry have decreased by 11.1%, 9%, 30.9%, and 24% respectively (Sun, 2009).

1.3 Company Overview

Wire and Plastic Products (WPP), a UK manufacturer of wire baskets became the foundation company in which Sir Martin Sorrell invested following his search for a public entity through which to build a worldwide marketing services company.

Established as a marketing services group in 1986, WPP constructed its offer originally based on below-the-line marketing services capabilities in the UK and the US. Since then, WPP has grown to become one of the world's largest communications services groups with a network of about 2,000 offices in 106 countries. It is the second largest advertising and media services conglomerate globally in a market largely dominated by four players (the other three being Omnicom, the Interpublic Group of Companies, and Publicis).

WPP owns leading brands in various segments of the communications services sector such as J. Walter Thompson, Ogilvy & Mather, Y&R Advertising, Grey Global, MindShare, Hill and Knowlton, Landor, Burson Marsteller and Research International.

The group maintains long-standing relationships with some of the leading global brands. WPP companies provide communication services to clients worldwide, including

more than 340 of the Fortune Global 500, over one-half of the NASDAQ 100, and over 30 of the Fortune e-50. The group's top clients include American Express, AT&T, Yahoo!, Cisco, IBM, Nestle, Coca-Cola etc. The group has been expanding its business through mergers, acquisitions and take-overs. The growth through acquisitions gave WPP a competitive advantage by giving it an increased presence in new markets and segments.

WPP originally entered China to provide advertising services to its global MNC customers when they entered China, and despite expansion, this has remained the bulk of their business. WPP owns an enormous number of agencies in China, more than any other leading group, and many of these agencies have expanded through the establishment of specialized sub-branches in various fields of advertising. WPP generated an operating revenue of USD 800 million in Greater China in 2008. Greater China is already WPP's fourth largest market, and WPP has a 15% share in mainland China – a market-leading, six-to-one advantage over the next largest competitor (WPP Annual Report, 2008). WPP has achieved rapid growth through acquiring smaller firms in China. It will continue to invest heavily in the measurable technologies that will provide greater insight into consumer spending and habits. This represents a shift in the balance of WPP's service area from traditional advertising to marketing services.

Compared with its negative 0.3% growth in North America, the WPP Group has successfully achieved nearly 9% growth in China (Sun, 2009); however, it is underperforming in regards to the 9.11% growth of the Chinese market, and it is well behind the 21% growth of small, private Chinese firms.

1.4 Company's Current Strategy

A number of experts have established criteria for evaluating the strategies of Multi National Corporations (MNC's) in emerging markets. WPP currently adopts a Differentiation strategy demonstrated through improving brand reputation, delivering innovative products and service, hiring highly skilled labour, and using decentralized structure and high autonomy in decision making. The Differentiation strategy is proved to be very successful in the past, but WPP's growth is now lagging in the market and its success is less obvious. Given that global clients have been cutting advertising budgets due to the economic downturn in their home countries, while Chinese companies are expanding fast and becoming a greater percentage of the market, WPP's Differentiation strategy is called into question because Chinese customers don't value Differentiation, but want Low Cost. To succeed in China, WPP needs to retest its current strategy to catch the growing Chinese clients as well as to maintain global clients to manage its growth.

1.4.1 Low Cost vs. Differentiation Strategy

Walters et al (2008) argue that in industries where significant cost savings can be achieved through standardisation and centralisation, firms will adopt ‘global’ rather than ‘multi-local’ strategies; however, cost factors are not of great significance in the advertising industry, with a general view that cost minimisation would not heavily influence strategy. It was noted that the fees paid to an agency are normally only a small proportion of the advertising campaign expenditures, and that most clients are not overly price sensitive and consider that it is worth paying for quality advertising.

Nevertheless, Dayal-Gulati & Lee (2004) points out that unlike in more developed markets, price is one of the principal criteria by which agencies are evaluated in China. Because local clients view advertising as a commodity, they focus on the price tag of the pitch, rather than the quality or strategic value of the product. Although Chinese companies invite many agencies to pitch for a new advertising campaign, they often end up choosing the firm that offers the lowest price – usually the local advertising agency. In some cases, the low-cost firm utilizes “borrowed” ideas from unsuccessful multinational agency pitches. This price competition is indicative of the low value that Chinese companies place on agencies’ creative capital and strategic insights.

According to Dayal-Gulati & Lee (2004), in the eyes of Chinese firms, advertising agencies essentially have a limited role: creatively packaging and distributing the client's message to the public. In contrast, the western view of the ad agency's role is as a collaborator and strategic marketing partner. It is the increasing power of Chinese clients and their preference for low prices that brings WPP's Differentiation strategy into question, such as hiring highly skilled labour, investing high in researching and branding model, encouraging employees to win for creative awards, etc.

1.4.2 Globalization vs. Localization Strategy

According to Buckley (2007), multinational firms are faced with the strategic decision to reconcile the pressures between globalization, the need to stay local, and the need to serve individual customers. The cost advantages of standardization maximized the economies of scale and reduced duplication, thus achieving efficiency. Using a Differentiation strategy enables a company to tap into these niche markets, particularly when locally enabled. Overall, cultural differences and industry distinctions are of great importance in determining the extent of the balance of global/local orientation. Brock and Birkinshaw (2004) point out that the fiercer the local competition, the more complex the

operating environment, and the more fragmented the global marketplace, the more important it will be for the business to have the authority to respond locally.

A key element of the standardization of international advertising is achieving uniformity of multinational brands' global image and message. On the contrary, advertising is not only a producer service, but also a cultural industry that promotes consumer culture (McFall, 2002). In order to cater to different local markets, the production of advertisements in China is a mixed process incorporating global as well as local content (Po, 2005).

For their international clients, WPP's agencies are under a worldwide network while building a standardized global strategy; to adapt the ad contents locally and still keep the consistent global brand image and theme (Samieea et al, 2003). For their Chinese clients, WPP's standardized global strategy sometimes does not satisfy the local needs. Take the example of The Brand Union, one of WPP's subordinates that specialize in brand consultancy. Its brand model is standardized globally and sometimes it does not fit the Chinese context well. For example, ChangHong, one of the China's leading electronic companies, refused to pay back the last 10% payment of a branding project, claiming that the delivery did not match their expectations.

1.4.3 Acquisition of Local Firms and Resources

Meyer and Tran (2006) argued that in order to build the capabilities for operating in emerging markets and for increasing economies of scale, the acquisition of resources that are controlled by local firms is a critical strategy. Yet, takeovers of local firms are inhibited by factors such as regulatory constraints and the scarcity of potential acquisitions.

In some contexts, cooperation with a local firm may help build political goodwill, as well as a full range of local assets, such as brand name and knowledge of consumer behaviour. The employees of the relatively advanced local firms may be best qualified to benefit from training and to adopt new technologies and business practices.

However, an acquisition may be inhibited by obstacles specific to emerging economies. The resource endowments of local firms are often poor, and their technological upgrading and organizational integration may require considerable investment.

The WPP Group has continued its expansion in China through its wholly-owned operating companies, as demonstrated by Ogilvy's acquisition of Fujian Effort Advertising in 2004 and by Sudler & Hennessey acquiring the majority stake in MDS;

the leading healthcare agency in China in 2009. According to WPP (BrandRepublic, 2004), the investment in Fujian Effort (now Effort Ogilvy) represented a major step forward in Ogilvy's long-term provincial acquisition strategy aimed at helping the group's expansion into second-tier cities and surrounding provincial areas. WPP imposed its Differentiation strategy on acquisition as well, demonstrated by adding high cost management team, improving brand reputation of new acquired firms, and increasing price. WPP appointed Ramsey Leung as the Managing Director, who is a Taiwanese and is vice-president of Ogilvy Southern China. WPP also renamed Fujian Effort to Effort Ogilvy, considering Ogilvy' prestigious position in the industry, Effort highly improved its brand image by using Ogilvy's name. Additionally, according to Mr. Li Guo Ping (WPP, Acquisition of Fujian Effort Advertising, 2006), the former Chairman of Fujian Effort, "By joining the Ogilvy network, we will have greater access to international standard practices, knowledge and training programs. We will also have an opportunity to upgrade our internal management systems." Because of the upgraded product and service, they are more likely to charge a higher price to their clients.

The WPP Group currently adopts a Differentiation strategy and does not have a cost advantage. It has achieved significant inorganic growth through acquiring local firms; however, the Differentiation strategy is not as effective as it once was -- presumably, it

never was with local Chinese companies, but this didn't become apparent until they became a major and a growing part of the market. According to Crossan et al (2005), in reactive change situations, strategic performance is going down, but it still seems under control. The nature of the external changes is becoming evident, and the impact of these changes on the business is building. WPP's 9% growth still is considered good, but the growth is under-performing in the market, while successful smaller competitors grow at twice the rate. This suggests that WPP needs to change reactively. A common strategic issue in reactive change is that of concentrating attention on the core business and developing an effective strategic response to the changing conditions (Crossan et al 2005). Managers need to be persuaded that strategic proposals that may make sense under other conditions, such as acquisitions or alliances, may only detract from the attention required by the core business (Crossan et al 2005).

WPP is very committed in its internal capabilities to its Differentiation strategy, demonstrated through its innovative product strategy, decentralized structure, high autonomy, and highly skilled labour.

1.4.4 Product Strategy: Innovations & Differentiation

WPP's group companies produce innovative ideas, and are creative consultancies, which are favourable to their international clients, but are less valuable when it comes to winning local Chinese clients. With a diversified business discipline, WPP has invested in more than 16 independent sub-companies in China; each of them has its unique brand name and identity to avoid "client conflict" and to build competitive advantages within the rapidly growing and competitive market.

Major WPP companies have proven quantitative models that give direction to strategically coordinated messages across consumer touch-points. Ogilvy (Dayal-Gulati & Lee, 2004) calls it "360 DEGREE BRAND STEWARDSHIPSM," while Grey (Dayal-Gulati & Lee, 2004) calls it "Synchronized Marketing". These models can deconstruct the emotional relationships that people have with brands and benchmark these brands against their competition (Dayal-Gulati & Lee, 2004).

WPP is also successful at building its own brands within China, and in promoting their own expertise. For example, Ogilvy and Mather (Dayal-Gulati & Lee, 2004) were quick to publish David Ogilvy's classic books on advertising in Chinese in the early

1980s, and continue to hold seminars and provide marketing education materials to enhance the company's "premium" agency status.

1.4.5 Structure: Decentralized

A decentralized structure fits WPP's intention to be differentiated and innovative, but it adds cost. WPP itself functions as a full-service agency, acting as a portal to provide a single point of contact and accountability. As the parent company, WPP encourages and enables sub-companies of different disciplines to work together in order to maximize the benefits of clients and the satisfaction of its people. More importantly, WPP's sub-companies can freely develop business, build brand image and distinctive cultures, and coordinate with each other. Furthermore, the company culture facilitates a bottom-to-top flow of decision-making and ideas.

1.4.6 Decision Making: High Autonomy on Business Side

WPP's high autonomy goes hand-in-hand with its decentralized structure. Business decisions are made at the business management level in local sub-companies. According to T.B. Song (Walsh, 2002), the Chairman of Ogilvy & Mather Greater China, the business operation is managed locally and the local management team makes the

decisions. Sub-companies are not required to report to WPP, except for finance performance. WPP manages and controls all its sub-companies' financial work such as planning, budgeting, reporting, control, treasury, tax, mergers, and acquisitions. As the parent company, it plays an across-the-group role in terms of managing talent, which includes recruitment and training, in-property management, in procurement and information technology, in knowledge sharing, and in practice development.

1.4.7 Labour: Highly Skilled

WPP employs high-skilled labour that is also characteristic of a Differentiation strategy. The business is a creative, entrepreneurial, people-oriented business. The nature of the business requires having highly skilled people working in the firm. The company strives to recruit, train, and inspire people with specialist talents who work the best and contribute the most, in order to provide their clients high-quality information, strategic advice and specialist communications skills. All employees in this company are well educated and highly skilled. Hiring and retaining the right talent will remain crucial to the company and its clients; however, the downside is that those employees are very costly, which is a burden for companies under financial stress.

1.5 Company's Current Situation

First and foremost, faced with its slowing growth rate in China, and the decreasing purchasing power of major MNCs, WPP, the Chinese market leader, needs to reactively adapt to the China market. It needs to focus on attracting the domestic Chinese clients, and it should evaluate the possibility of switching from a Differentiation strategy to a Low Cost strategy.

Moreover, as a result of the growing domestic clients and the characteristics of the Chinese market, localization is more important and deserves more attention. The Globalization strategy worked well with WPP's original entry strategy of following its global clients, but changing customer opinions about advertising are calling into question the global approach.

As one of WPP's most important subordinates in China, Ogilvy & Mather failed to achieve its financial goal in 2008. T.B. Song, Ogilvy's Chairman as well as WPP's Chairman of the Asia Pacific region, wrote a year-end letter to all of the employees to discuss the problems that the company is facing. In this letter, T.B described their "collective failure" is due to five main reasons: Unclear control and supervision; No improvements in efficiencies; Unsatisfied clients that terminated contracts early;

Unrealistic business judgment; Unenthusiastic pitches for new business that was lost to competitors. He also urged employees to change the way they act, such as to be more active and engaged in clients' businesses, to deeply understand the client's business model, and to improve flexibility, speed and efficiency, etc (please see Appendix A for details).

1.6 Chapter Summary

This paper consists of four main chapters: an introduction in chapter one; the industry analysis in chapter two; an implementation/internal analysis in chapter three; and the recommendations in chapter four.

The introduction in chapter one provided an overview of the description of the organization, WPP, a description of the advertising industry in China, and the literature reviews of certain strategies. The current strategy and current situation in WPP China is presented.

The industry analysis in chapter two is presented using Porter's Five Forces Model, and it leads to the identification of the Key Success Factors (KSFs) required to be competitive in the advertising industry in China. A competitive analysis is provided to compare WPP against key competitors based on the KSFs to determine where the threats

and opportunities arise. The strategic alternatives are formulated for WPP to successfully compete in the industry.

The internal analysis in chapter three examines WPP's internal capabilities, and identifies gaps in resources and abilities for implementation of the proposed strategic alternatives. The "Diamond-E Framework" is used to evaluate the strategic alternatives based on the environment, resource requirements, management preferences, and organizational capabilities (Crossan et al 2005).

The recommendations in chapter four are based on evaluations of the strategic alternatives to determine the strategic choice that best fits WPP and satisfies management decision criteria, and for conducting a timeline for implementation.

2: INDUSTRY ANALYSIS

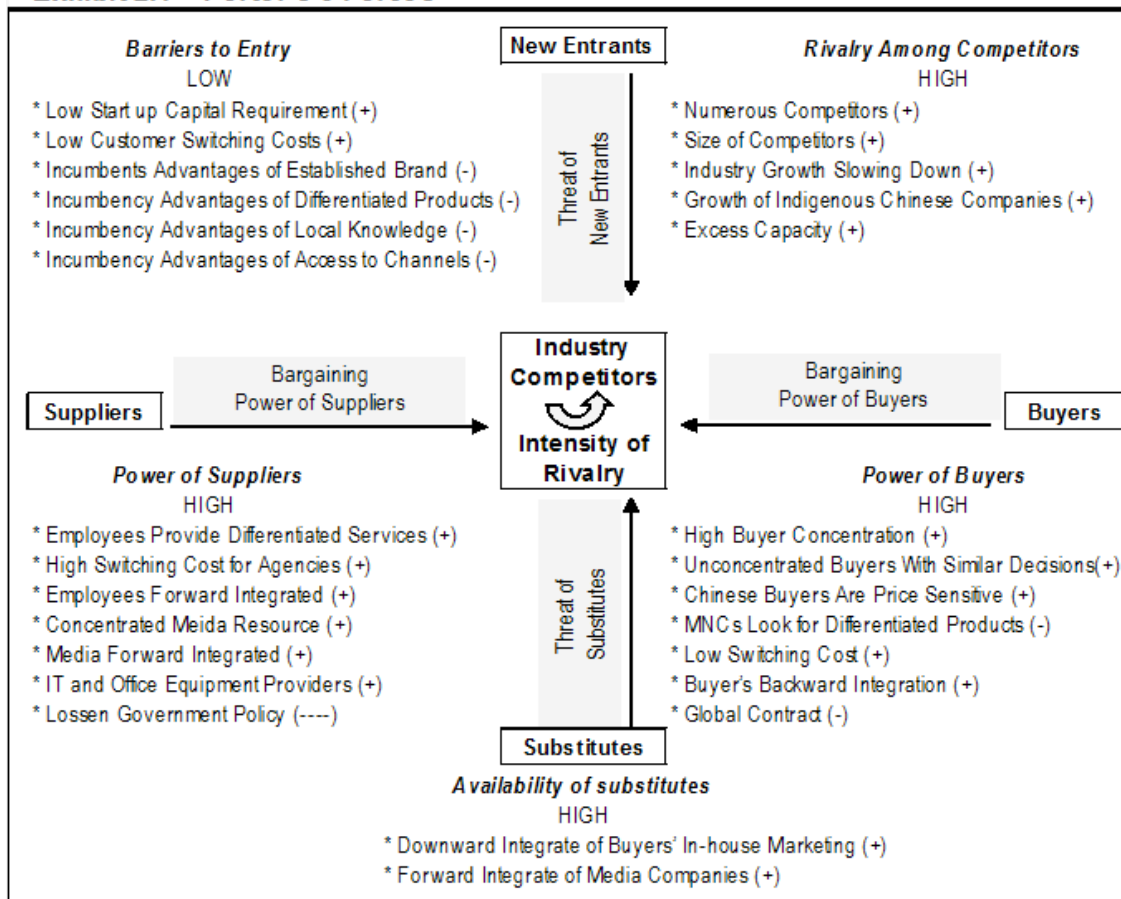
Porter's (2008) Five Forces Model is used to assist in identifying and relating the broad competitive industry forces that must be considered in building and testing a strategy for WPP marketing services. From this analysis, the Key Success Factors (KSFs), which are required to be competitive and successful in the advertising industry in China, are identified. Following this is a competitive analysis comparing WPP and its direct competitors on their ability to implement the KSFs in order to identify opportunities and threats to craft strategic options that will be tested in the next chapter.

2.1 Industry Analysis Chart

The industry analysis chart in Exhibit 2.1 defines the industry and the five forces to be analyzed: Bargaining Power of Customers, Bargaining Power of Suppliers, Threat of Entry, Threat of Substitute Products/Services, and Rivalry Amongst Existing Competitors. For each of the forces, the general characterization is indicated as Low, Moderate or High. For each variable contributing to the characterization, the notation (+)

is used if the force increases because of this variable, and (-) is used if the force decreases because of this variable.

Exhibit 2.1 – Porter’s 5 Forces



2.2 Bargaining Power of Buyers (High)

In China’s advertising industry, the demand forces are assessed as high. The Bargaining Power of Buyers force is usually high when the following conditions exist: 1) buyers are more powerful if they are concentrated or purchase in large volume; 2) unconcentrated buyers all start making similar kinds of decisions giving the effect of

concentration; 3) buyers are price sensitive, using their clout primarily to pressure price reductions; 4) the services are undifferentiated, therefore the overall costs are standardized; 5) buyers face few switching costs when changing vendors; and 6) the buyers possess a credible threat of backward integration when they want to achieve cost advantages.

Buyers in the advertising market are business-to-business customers. They are generally categorized into two segments: multinational companies (MNCs) and Chinese companies. MNCs have long been the objects that multinational advertising agencies (MNAAs) compete for, but the Chinese companies are becoming the more important buyer due to their size and number.

2.2.1 High Buyer Concentration (+)

Buyer concentration increases buyer power. There are not many buyers (these are the business customers who seek marketing service in the industry). Many agencies are heavily reliant on a few key buyers - if one client switches from agency A to agency B, then agency A's revenue may be severely affected, and the whole team which used to serve that account may be fired. This implies that a diversified buyer base is a factor to decrease the buyer's power, since with a wider buyer base, the agency is less dependent

on these key buyers. Additionally, the industry's pitching policy demonstrates the strength of buyer power. Quite often, buyers with large marketing budgets call several agencies to pitch for a project. Competing agencies may then need to present their work with or without a small amount of pitching fees. Sometimes, agencies may even have to provide free services before they are able to win a new account.

2.2.2 Unconcentrated Buyers with Similar Kinds of Decisions (+)

When unconcentrated buyers all start making similar kinds of decisions, this gives the effect of concentration, thereby increasing their power. Normally, MNCs choose an agency according to their creativity, its capability to implement Integrated Marketing Communications (IMC), and local experience. Moreover, a well-known company is appealing to most potential buyers. If a famous agency can demonstrate successful showcases, then the buyers will be more convinced that the agency has the ability to duplicate the success. Although some prestigious Chinese clients also like to call well-known agencies to pitch for new business, they usually end up with choosing the agency that offered lowest price. Thus, a well-known brand name is a KSF for a differentiated company serving MNC clients. For Chinese clients, pricing is the first priority and they treat agencies more like suppliers than strategic partners. They expect the agency to

transmit their own message rather than invent a new one. This makes low price a significant KSF for winning Chinese clients.

2.2.3 Chinese Buyers Are Price Sensitive (+)

Buyers are powerful especially if they are price sensitive. The advertising buyer group is price sensitive because the marketing service that they purchase represents a significant fraction of their cost structure or procurement budget, and because the marketing service has little effect on the buyer's other costs. Chinese consumers are fickle, demanding, and price-conscious in general (Madden, 2009), and this also applies to the advertising buyer group. They do not value creativity and always look for the lower cost because they plan to control how their messages are developed and promoted. Hence, Low Cost is again a critical KSF to win Chinese clients.

2.2.4 MNCs Look for Differentiated Products (-)

Unlike Chinese companies, MNCs are less price sensitive and consider creative advertising worth paying for. A Differentiation strategy rather than a Cost-based strategy is applied by most MNAAs to distinguish from other vendors and to decrease rivalry. According to Walters (2008), there is strong interest in having firms develop consistent

core positioning strategies globally to differentiate from other competitors. There are many ways to differentiate in the advertising business: e.g. creativity, superior customer services, and unique branding tools and models, etc. Moreover, multinational firms also have huge investment in R&D development, such as consumer behaviour research, industry trend analysis, and employee's training, to differentiate with competitors and decrease buyer's power. Thus, a Differentiation strategy, especially the creative focus adopted by Multinational Advertising Agencies (MNAAs) is a key success factor (KSF) for winning Multinational Companies (MNCs).

2.2.5 Low Switching Cost (+)

A low switching cost increases the buyer's power. Changing agencies is commonplace in the industry. "The ad industry is so young - firms want to date, not marry." (Dayal-Gulati & Lee, 2004) Change is the constant nature of the industry. Changes in consumer preference, newly launched products and emerging technologies, mean that sometimes buyers need to switch agencies in order to react to market change. Besides that, there are numerous reasons to replace an agency, such as decreased sales revenue, lowered market share, a newly on-board manager who has a different preference. As widely known in the industry, when a new marketing VP is on board, the first thing

that he or she will most likely do is fire the original agency and recruit a new one. Some exceptions happen when the agency has developed a strong connection with the buyer's top executives. The close personnel relationship decreases the buyer's switching threat. Developing a strong and close guanxi¹ relationship is a KSF in keeping a buyer. Besides that, a track-record of successful campaigns for an existing buyer may make the buyer unwilling to take risk to switch to a new vendor (Datamonitor, Advertising in China Industry Profile, 2007).

2.2.6 Buyer's Backward Integration (+)

The threat of backward integration is significant as buyers could adapt in-house marketing as an alternative (Datamonitor, Advertising in China Industry Profile, 2007). In particular, buyers could trade with media companies directly, and they could negotiate purchases for advertising space. Especially in an economic downturn, buyers may adapt a Low Cost strategy by cutting marketing budget, and by utilizing in-house resources to save cost.

¹ Guanxi refers to social networks, spheres of influence, and interpersonal dynamics and is a very important concept in China that goes far beyond Western "networking".

2.2.7 Global Contract (-)

The global contract decreases power for some MNC buyers. These buyers, especially MNCs without Chinese experience, do not have authority to choose their agency in China. The stable relationship between their headquarters offices decreases the power of the buyer in China. To keep a consistent global strategy and image, some buyers in China's market do not have the authority to change vendors and have to follow the order given by their headquarter office, which can limit the buyer's power to a certain degree.

2.2.8 Key Success Factors in Dealing with Buyers

2.2.8.1 Key Success Factors in Dealing with Chinese Buyers

2.2.8.1.1 Low Price

Unconcentrated Chinese clients all have a similar strategy and approach: to seek Low Cost. This renders "low price" as the most important KSF in China's advertising industry, especially when it comes to companies that compete for the Chinese clients. As more and more MNAAs are competing for Chinese clients, low price determines whether they are able to meet the needs of Chinese clients.

2.2.8.1.2 Guanxi Relationship

A cooperative guanxi relationship that combines trust and shared goals is the key to business success in China (Abramson & Ai, 1999). A guanxi relationship based on trust and mutual benefit is a significant factor for improving the effectiveness of the interaction between agencies and advertisers in a domestic Chinese market context. Given the unavoidability of conflict in the relationship between agencies and advertisers, an agency should encourage its boundary personnel to actively pursue a more positive relationship with the boundary personnel of its advertiser. This involves participating in various social activities such as exchanging small gifts during festivals, having dinners together, and supporting each other in daily life. It is important to the development of interpersonal relationships that boundary personnel put more emphasis on the development of emotional guanxi (ganqing) (Zhang, Xi, & Tsang, 2008).

2.2.8.2 Key Success Factors in Dealing with MNC Buyers

2.2.8.2.1 Well-known Brand Name

In the advertising industry, prestigious agencies with successful cases, especially those having famous client names, enhances a firm's brand image and visibility, which

enables them to attract new clients (Datamonitor, Advertising in China Industry Profile, 2008).

2.2.8.2.2 Differentiation

To obtain and maintain MNCs which value creativity, and for companies that value creativity rather than low price, Differentiation is a KSF for MNAs to distinguish themselves from competitors.

2.2.8.3 Key Success Factors in Dealing with Both Buyers

2.2.8.3.1 Diversified Buyer Base

A diversified buyer base will diminish the risk of dependence on some significant accounts, and it will improve the firm's bargaining power. If an agency is dependent on few customers for a significant amount of its revenue, then the customers reduce marketing and advertising spending. Thus, the company's revenue and financial condition is adversely affected.

2.3 Bargaining Power of Suppliers (High)

The bargaining power of suppliers is assessed as high. The Bargaining Power of Suppliers force is usually high when the following conditions exist: the companies depend on a wide range of supplier groups for product; the suppliers are concentrated (which brings power); the suppliers have differentiated services (or have ones with high switching costs); the suppliers don't contend with other substitute services as a source of supply; they can forward integrate; and they are not dependent on the industry to which they supply.

In China's advertising industry, the main suppliers are individual talents who work for agencies, local media companies providing advertising space such as TV stations, magazine publishers and websites, and IT and office equipment manufacturers that provide communication and control systems.

2.3.1 Labour

The supplier of labour can be categorized into two segments: expatriate employees and local Chinese employees. The former is paid based on the home office pay scale, takes top jobs, and makes substantially more money than local employees in

MNAAs (Dayal-Gulati & Lee, 2004). The latter are suited to a Low Cost Strategy; they are much less expensive and are more readily obtainable.

As a supplier group, there is concentration of the group's employees and differentiated services are provided. The skills in management, marketing and creativity are not replaceable by other substitute services. The employee turnover presents high switching costs for the advertising companies. Further, employees may forward integrate to form their own companies which compete with their former employer companies.

2.3.1.1 Employees Provide Differentiated Services (+)

Employees provide differentiated services, thus the expense of staff is on the high-side (employees are the major cost when it comes to producing an ad service). The cost of staff is roughly equal to 60 to 70% of revenue within the leading five advertising groups. Having such a staff is expensive, but it is the essential intangible asset a company carries in the industry. China's advertising market is still in an early stage of development, and the industry has high demand for skilled people serving various functions. These include business people to identify and develop business opportunities, marketing people to manage projects and provide strategic marketing solutions, and graphic designers to create and produce advertising campaigns. High profile experts such as creative designers

and managerial experts are in high demand and are in short supply in the industry, thus, MNAsAs hire expatriate adpersons to manage and train local staffs to provide differentiated services to MNC clients.

2.3.1.2 High Switching Cost for Agencies (+)

Anecdotal evidence from China suggests that employee turnover in both the MNAsAs and local agencies is extremely high (Dayal-Gulati & Lee, 2004). The high turnover increases companies' switching costs and increases their vulnerability to poaching. Agencies not only have to bear the loss of the time, money, and resources invested on staff training, but also risk losing clients who may leave together with those staff.

2.3.1.3 Employees Can Forward Integrate (+)

Employees are able to forward integrate to start their own agencies. As mentioned before, small private Chinese firms grew fast in 2008, with the number increasing by 9.53% and revenue growing by 21%. They account for 32.53% of the market's revenue in 2008, increasing from 29.33% in 2007 (Cai, 2009). According to Barry Colman (Dayal-Gulati & Lee, 2004) of Grey Relationship Marketing in Shanghai, there is a perception that the

top jobs always go to expatriate employees, thus it is common for many nationals to spend a few years learning the business and then leave to set up their own companies.

In sum, retaining local staff is a critical KSF. If an agency has successfully developed a system to attract and retain local staff, it would help to reduce the labour cost in the end (Cheng, 2006).

2.3.2 Media Companies

Media companies are important suppliers and partners of multinational advertising companies, which sell advertising space and are the traditional channels to communicate with mass audiences. Agencies need to negotiate the purchase of advertising space and pass on the expense to buyers by charging a flat-rate commission on buyers' media space purchases (Datamonitor, Advertising in China Industry Profile, 2007).

2.3.2.1 Concentrated Media Resource (+)

Some dominative media are very powerful, such as CCTV and SMG. According to (Swanson, 2007), "Media are still a major apparatus by which the Communist Party disseminates information – a link between the government and the populace, serving as a

tool to propagandise, educate and motivate.” Since the majority of the state influenced media is still owned by the Chinese government, media companies have significant bargaining power. With strong connections, especially guanxi with powerful media, agencies may get cheaper rates, prime-time spots and flexible payments.

2.3.2.2 Media Can Forward Integrate (+)

Media is powerful because they are able to forward integrate and do not necessarily rely on the advertising agencies to which they supply. Media can directly sell ad space to end users to gain higher profits or provide extended services to add value. In fact, Chinese agencies indicated that they outsourced media buying for their clients because they lacked the size and scale to independently purchase media on favourable terms (Dayal-Gulati & Lee, 2004). Some media even provide free design and press release write-ups to add value to their clients.

2.3.3 IT and Office Equipment Providers (+)

IT and office equipment manufacturers who provide design software, communications and control systems are also important suppliers for the vendor; however, these costs are only a small portion and do not affect the core competency of

advertising companies. Additionally, when taking into account the various resources and market selections, the bargaining power of IT and office equipment suppliers is not significant.

2.3.4 Key Success Factor in Dealing with Supplier Power

2.3.4.1 Getting and Retaining Local Staff

Local talent acquisition and retention is a significant KSF in the industry. To improve competencies, advertising agencies need to handle local relationships and build cultural and consumer behavioural knowledge of the target market. Consequently, human capital, in particular, retaining local staff, became central to the advertising business (Tai-Yuan Huang, 2008). As a means of keeping talent, top management needs to consist of Chinese employees instead of western expatriates (Cheung & Leung, 2007). Overseas Chinese, such as Chinese from Taiwan, Hong Kong and Singapore with cultural similarities who currently hold top positions should not be considered as truly local Chinese. It is the author's understanding that only people who grow up in China are considered true nationals in China (true nationals meaning, in this sense, that not only are they citizens, but were raised within Chinese culture, are familiar with the morès, and

their exposure to the socio-political climate from an early age has given them greater understanding of how things work in China). Developing guanxi with powerful media enables agencies to provide more competitive rates and better services to their clients.

2.4 Threat of Entry (Low)

In China's advertising industry, the threat of entry forces is assessed as low. The threat of entry force is based on the major sources of barriers to entry: economies of scale; capital requirements; government policy; the incumbency advantages of an established brand; product Differentiation; experience and local knowledge; access to channels; and customer switching costs. Where there are high capital requirements and high switching costs, incumbents with a differentiated product or service, incumbents who have the advantage of experience, local knowledge and access to channels, as well as a government policy that limits entry, there will be very high barriers to entry. Although, as shown in former discussion, there are high entry barriers for MNAAs, this is not the case for the local Chinese companies. The huge number and rapid proliferation of local Chinese agencies shows that the local Chinese industry is not subject to the high barriers for industry entry to which the MNAAs are subjected.

2.4.1 Low Start up Capital Requirement (+)

The low capital investment requirement to start up a business makes entry easier. An advertising agency generally requires minimal physical assets, but it is highly reliant on knowledge and creativity (Datamonitor, Advertising in China Industry Profile, 2008). This means that it could be possible to set up an agency with relatively low capital outlay, and this would encourage more competitors to enter. The only exception is the media buyer companies that require large capital assets to get cost advantages when replacing advertisement with large economies of scale in media companies.

2.4.2 Low Customer Switching Costs (+)

The lower the customer switching costs, the easier it is for an entrant to gain customers. As discussed in the buyer's power section, customers can easily choose another agency for numerous reasons without cost much; therefore, developing a strong and close guanxi relationship with the buyer is a KSF to prevent replacement.

2.4.3 Incumbents Advantages of Established Brand (-)

Incumbents that built brands in China discourage entry by limiting the willingness of customers to buy from a newcomer, and by reducing the price the newcomer can

command (Porter, 2008). As many world-leading agencies have already built up their branch offices in China since the 1980s and have become influential powers in the market, their brands are now well known in China. Chinese customers are often more educated about a company's brands than consumers in the West (Madden, 2009). They often believe that a good brand deserves to charge a premier price, but at the mean time, they always look for the best quality with the cheapest price, so that a well-established brand is a KSF for an incumbent.

This indicates first mover advantages as a KSF since in Chinese Confucian culture, the first mover has a better reputation.

2.4.4 Incumbency Advantages of Differentiated Products (-)

Incumbency advantages in producing differentiated products and services discourage entry because entrants must try to bypass such advantages. Creativity is the significant factor that agencies use to differentiate themselves in the industry. Creativity lies at the core of the advertising profession (Hairong Li, 2008). To evaluate the importance amongst all the services provided by ad agencies, more than half of the Chinese clients list creativity as their top priority (ModernAdvertising, 2009). Thus, creativity is an important KSF for those agencies which choose a Differentiation strategy.

2.4.5 Incumbency Advantages of Experience & Local Knowledge (-)

The incumbency advantages of cumulative experience and learning effort have allowed incumbents to produce more efficiently. Lacking Chinese local cultural knowledge can be risky and is potentially disastrous for new entrants. For instance, “Toyota outraged Chinese customers by one of its print ads, in which two stone lions, seen as a symbol of China, bow to and salute a Toyota Land Cruiser Prado SUV” (Datamonitor, Advertising in China Industry Profile, 2007). Toyota quickly pulled the ad and dropped Saatchi & Saatchi as its creative agency after two months. Thus, local knowledge is a KSF for incumbents to succeed in the industry.

2.4.6 Incumbency Advantages of Access to Channels (-)

Once an incumbent has built up the channels, the new entrant must secure distribution of its product or service and then bypass it or create its own. Sometimes guanxi can effect and foster the creation of channels; therefore, developing a strong guanxi with key distribution channels is a KSF.

2.4.7 Lessened Government Policy (----)

The Chinese government has opened the advertising market – wholly owned subsidiaries in advertising have been permitted since Dec 10, 2005 (this was China’s accession to the WTO), which makes entry easier. However, interestingly, not many multinational advertising firms choose to separate from their local partners. The main reason is that most of the multinational firms hold majority of the ownership and can dominate authorship, while at the same time, their local partners can bring in local knowledge and network. According to Sir Martin Sorrell of WPP (Admap, 2007), “perhaps in the long run we might go to 100% ownership, but right now having a partner adds value; 50 or 75% can be better than full ownership because Chinese joint ventures know the market. It would be arrogant to think that we could come into a market and claim to know everything about its 30 or so provinces. This is crucial to doing business in China.” Thus, the regulatory change does not have a great affect on the threat of entry.

2.4.8 Key Success Factors to Defeat New Entrants

2.4.8.1 Guan Xi

According to Abramson and Ai (1997), relationship marketing is the most appropriate basis for buyer-seller relationships in China. A well-developed guanxi strengthens the key personnel between an agency and their clients, so buyers are less likely to switch to another vendor. Additionally, with guanxi, firms can establish and secure channels to block competition.

2.4.8.2 Established Brand

Chinese customers value prestigious brands, and the well-known brand name gives a company advantages when it comes to obtaining new buyers.

2.4.8.3 First Mover Advantages

Once a firm has acquired the mover advantage, it will have a unique position over other competitors. Customers of a first mover are normally early adopters who are less price sensitive, which gives the firm a higher profit margin. Being the first mover, the firm can build brand awareness and recognition amongst its suppliers and customers.

Newcomers have to either lower the price and profitability, or provide differentiated services to gain competitive advantages.

The first mover advantage is even more valuable in China than North America, since Chinese Confucian culture endorses the first mover with a better reputation. If product and service is identical, the Chinese consumers are willing to pay a reasonably higher price to the first mover. Additionally, the first mover advantage is demonstrated through the consolidated local network, accumulated cultural knowledge, and management experience (Cheng, 2006).

2.4.8.4 Creativity for Differentiation Strategy Company

Pitching is the main way for selecting agencies in the highly competitive market, and creativity plays a critical role in evaluating an agency's value. Despite the significant advances in advertising creativity research, little is known regarding the impact of the outcomes and the creativity of the campaign (Hairong Li, 2008). Thus, clients turned to evaluate agencies' creativity partly through advertising awards – notably the Cannes Advertising Festival and the LongXi Global Chinese Advertising Awards. Correspondingly, agencies invest huge staff and resources with the goal of winning awards, thereby improving the firm's brand reputation.

2.4.8.5 Local Knowledge

According to Abramson and Ai (1997), MNCs had to adapt to local marketing practices in China to reduce uncertainty and to build competitive advantages. China offers a much larger market than in any of the other countries, but it is highly fragmented regionally. Chinese consumer behaviour is different from what MNCs might expect in other markets. Chinese customers want to express a modern, global mind-set, and they wish to be part of the international community, but they have a fundamentally different world-view than Westerners and remain firmly grounded in many of the Confucian traditions (Madden, 2009). According to Tom Doctoroff, JWT's CEO for Northeast Asia, the essential problem for advertisers and their clients alike "is that this market is too big and research data is difficult and expensive to get" (Walsh, 2002). A significant task for an agency is to identify a major market for a product and produce culturally related ad campaigns for that specific market in order to cater to that particular region's needs. Thus, a precise local and regional knowledge is essential for helping clients to expand their market share in a broad market.

2.5 Threat of Substitutes (High)

In China's advertising industry, the substitute services forces are assessed as high. The Threat of Substitutes force consists of products and services outside an industry that can provide a similar package of benefits. Substitute products and services reduce profitability in an industry when they place a ceiling on the chargeable price. Often the assessment of threat by substitute products and services is quite dynamic as a variety of forces shape the service features, the cost competitiveness of the substitutes, and the industry structure.

2.5.1 Backward Integration of Buyers' In-house Marketing (+)

In-house marketing is a partial alternative to third-party advertising (Datamonitor, Advertising in China Industry Profile, 2007). Most of the buyers already have set up marketing departments, and in most cases, these in-house marketing departments liaise with different third party vendors and monitor vendor's deliveries. A buyer can choose to do all of the advertising campaign, and media buying, in house, while not hiring a third-party vendor. The only need is to invest in a team of experts in-house; however, because the buyers may just need certain marketing activities in a particular time and region. It could be very costly if buyers recruit experts in all categories of advertising and

marketing. Therefore, a cheap price is a KSF in preventing buyers from integrating downward.

2.5.2 Forward Integration of Media Companies (+)

As discussed in the supplier power section, media can become a substitute when they forward integrate. The threat of media is high because it offers an attractive price-performance trade-off to the advertising industry's products. Quite often, media offer end customers a lower rate and add value by providing media planning and free production. Moreover, the buyers' cost of switching to media is low when they purchase ad time and space directly from the media. Along with the enhanced integrated capability of media, the threat of them is higher.

2.5.3 Key Success Factors for Dealing with Threats of Substitutes

2.5.3.1 Low Price

As the primary reason for buyers to downward integrate is to save costs, a competitive low price is the best way to prevent them from doing so. Only by providing better products and services, combined with a comparatively inexpensive cost, can agencies build competitive advantages to prevent being replaced by substitutes.

2.6 Rivalry Amongst Existing Competitors (High)

In China's advertising industry, the competitive forces are assessed as high. Porter (2008) suggests that the rivalry amongst the existing competitors forces are affected by the number of competitors, industry growth rate, and the excess capacity. The intensity of rivalry is greatest if competitors are numerous, are roughly equal in size and power, or if the industry growth is slow since slow growth precipitates fighting for market share. Price competition is most liable to occur if fixed costs are high and marginal costs are low, or if capacity must be expanded in large increments to be efficient.

2.6.1 Numerous Competitors (+)

Numerous competitors intensified the rivalry. The market is composed of a large number of small private Chinese companies, and a small number of large multinational companies. According to the statistics from the Administration Bureau for Industry and Commerce of China (Cai, 2009), there are 185,800 companies competing in the market and small private Chinese firms increased by 9.53% in 2008. Most local firms offer homogeneous services at more competitive rates. In such situations, it is hard to avoid poaching business.

2.6.2 Size of Competitors (+)

Having competitors who are roughly equal in size and power intensifies rivalry. Without an industry leader, practices desirable for the industry as a whole go unenforced (Porter, 2008). In China's advertising industry, the size and power among MNAs is similar, while the numerous local firms also share a similar size and power. There is not a dominant leader in either category, and no desirable practices are enforced.

2.6.3 Industry Growth Slowing Down (+)

Due to the rapid and stable growth of the Chinese economy, multinational agencies and indigenous Chinese firms experienced significant growth in recent years; however, in 2008, China's advertising industry's growth rate slowed down to 9.11% from a two digit growth for the past five years. Slower growth precipitates fighting for market share, and it puts MNAs in direct competition with local firms. Nevertheless, due to significant market demand and rapid growth rate, the competition is not considered to be as intense as in other mature markets such as the US and Japan.

2.6.4 Growth of Indigenous Chinese Companies (+)

To change the market that was dominated by MNAAs, growing indigenous Chinese companies are eager to take business back from the MNAAs. While the MNAAs have the advantage of well-known brand names and differentiated services, local firms have the advantage of rates that are more competitive and superior local knowledge that enabled them to achieve a 21% growth rate in 2008. Thus, a proliferation of companies, combined with a feeling by customers that Low Cost is better than foreign creativity, intensifies rivalry. The success of domestic firms indicates that low price is a critical KSF in China's market.

2.6.5 Excess Capacity (+)

High fixed costs and excess capacity lead firms to cut prices to achieve efficiency. MNAAs' fixed costs such as employee salaries, office rents, and R&D investment are the majority of their costs, while marginal costs such as travelling expenses are low. This creates intense pressure for competitors to cut prices below their average costs, even bringing prices close to their marginal costs, to steal incremental customers in order to cover fixed costs (Porter, 2008). Thus, more companies give excess capacity putting

downward pressure on prices. To use up the excess capacity and get more clients, firms need to utilize some aggressive marketing tools to promote themselves.

2.6.6 Key Success Factors in Dealing with Rivalry

2.6.6.1 Low Price

The significant growth of indigenous Chinese firms that endorse Low Cost strategies demonstrate the importance of low pricing in China's market; especially when companies cut budgets to deal with economic downturn. Large companies with excess capacity also have downward pressure on prices. Therefore, Low price enables companies to obtain more clients to better use their fixed costs and become more efficient.

2.6.6.2 Marketing

In a highly competitive environment, marketing is always an important tool for firms to stand out. Since the firms have to develop more business, they need to take initiative to promote their services in order to get more clients.

2.7 Summary of Key Success Factors

Based on the industry analysis of the business environment, to achieve a leading market position as an integrated marketing service group in China's advertising industry, the following key success factors are critical to being competitive and successful in the industry.

Since customers are segmented into MNCs and local Chinese companies, certain KSFs are more relevant to maintaining MNC business, while others are more important to obtaining local business – being strong for MNCs means being weak for local business.

The numerical scale under each KSF shows how important the factor is. 3 stands for very important, 2 means important, and 1 represents less important. Abbreviation C stands for local Chinese companies, and M represents MNCs. Some KSFs arising in more than one 5F section are likely to be more important, and if a KSF is identified in an F force that has high power, then that KSF is indicated to be more important as well.

1. Low Price (3 for C, 1 for M)

This is from the bargaining power of buyer discussion, from the threat of substitutes, and from the rivalry discussion.

2. Guanxi Relationship (2.5 for C, 1 for M)

This is from the bargaining power of buyer discussion, from the bargaining power from supplier discussion, and from threat of entry discussion.

3. Getting and Retaining Local Staff (2 for C, 1 for M)

This is from the bargaining power of supplier discussion.

4. Diversified Buyer Base (2 for Both)

This is from the bargaining power of buyer discussion.

5. Marketing (2 for Both)

This is from the rivalry discussion.

6. Well-known Brand Name (1 for C, 2 for M)

This is from the bargaining power of buyer discussion, and from the threat of entry discussion.

7. Differentiation (Creativity) (1 for C, 3 for M)

This is from the bargaining power of buyer discussion, and from the threat of entry discussion.

8. Local Knowledge (1 for both)

This is from the threat of entry discussion.

9. First Mover Advantages (1 for both)

This is from the threat of entry discussion.

10. Financial Resources (1 for C, 2 for D)

In order to solve “client conflicts”, advertising agencies are integrated at a higher level of management and are financially coordinated into global groups.

Ad groups need to possess the financial resources through investment and sales to grow and expand. As acquisition has become a popular way for the big ad groups to achieve inorganic growth. Investment capital is used largely to acquire and merge smaller companies.

2.8 Competitive Analysis

The competitive analysis describes the competitive environment for China's advertising industry, and it compares WPP against key competitors based on the Key Success Factors (KSFs) to determine where the opportunities and threats are.

2.8.1 Main Competitors

Competitors are companies that serve in China's advertising industry, and who compete for customers, revenue, and resources. The primary competitors are identified as the big ad groups that provide a diverse range of marketing and communications services.

Omnicom Group is a holding company that manages a portfolio of companies that offer traditional media advertising, customer relationship management, public relations, and specialty communications. Omnicom Group's agency brands are consistently recognized as being amongst the world's creative best. It includes three of the top ten global advertising brands: BBDO Worldwide, DDB Worldwide, and TBWA\Worldwide. China's rapidly growing healthcare market is a key strategic focus for Omnicom.

Interpublic Group has a strong customer base across technology, telecommunications, and manufacturing. Its offerings encompass various forms of advertising, including consumer, direct, mobile, and search engine marketing. Its agencies served more than 4,000 multinational, regional and local clients around the world in the year 2007. In the 2007 fiscal year, some of the world's largest corporations formed the company's client base, including General Motors, Johnson & Johnson, Microsoft, Unilever, and Verizon. A strong customer base enhances the company's brand image and visibility, but its comparatively weak margins would adversely affect investor confidence and its competitive position.

Publicis Group provides traditional advertising, media consultancy, specialized agencies and marketing services, and media services. It ranks fourth in communications worldwide, behind Omnicom, WPP and Interpublic based on reported revenues in 2006. The group's services portfolio is provided by strong advertising subsidiaries, including Publicis, Saatchi & Saatchi, and Leo Burnett Networks. The group's largest single client is Procter & Gamble (P&G), which accounted for approximately 10% of its consolidated revenues in 2006. Other large clients in 2006 included Cadbury-Schweppes, Coca-Cola, L'Oreal, Nestle, Disney, and McDonald's.

Dentsu Inc. is engaged in providing mass media advertising; creative, sales promotion and event marketing services; interactive communications; e-solutions; public relations; market research; direct marketing; brand consulting; and sports and entertainment marketing. Being the first international advertising company to enter China, Dentsu has a strong market position in China's advertising industry. It has grown substantially through establishing joint ventures.

Indigenous Chinese Companies

There are an estimated 80,000 "advertising enterprises" in China (Dayal-Gulati & Lee, 2004). While such an advertising enterprise would not necessarily be considered an "agency" in the West, the enterprises, nevertheless, lend credibility and perspective to another significant estimate: the level of participation by the global agencies in "agency activity" in China is only around 25%. Local firms are more likely to compete for low prices.

Exhibit 2.2 rates WPP and other ad groups, as well as Chinese local firms, on a five- point scale based on the KSFs for retaining MNCs. It summarizes the opportunities and threats WPP has in comparison to the two groupings of competitors, whereas Exhibit 2.3 is based on the KSFs to obtain Chinese clients. The best opportunities are where WPP

scores higher and with a wider gap than the competitors on a KSF that is higher rated.

The greatest threats are where WPP scores lower by a wider margin on a more important KSF.

Exhibit 2.2 - KSFs to retain MNC clients	Scale	WPP	MNAAs	ICCs	
Low Price	1	1	2	5	Opportunity
Guanxi Relationship	1	2	2	5	Threat
Getting and Retaining Local Staff	1	3	3	2	Threat
Diversified Buyer Base	2	3	3	1	Opportunity
Marketing	2	4	3	2	Best Opportunity
Well-known Brand Name	2	5	4	1	Best Opportunity
Differentiation (Creativity)	3	4	5	1	Opportunity
Local Knowledge	1	3	3	5	Threat
First Mover Advantages	1	5	4	2	Opportunity
Financial Resources	2	5	4	1	Opportunity

Exhibit 2.3 - KSFs to obtain Chinese clients	Scale	WPP	MNAAs	ICCs	
Low Price	3	1	2	5	Greatest Threat
Guanxi Relationship	2.5	2	2	5	Great Threat
Getting and Retaining Local Staff	2	2	2	4	Threat
Diversified Buyer Base	2	2	3	1	Threat
Marketing	2	4	3	2	Best Opportunity
Well-known Brand Name	1	5	4	1	Opportunity
Differentiation (Creativity)	1	4	5	1	Threat
Local Knowledge	1	3	3	5	Threat
First Mover Advantages	1	5	4	2	Opportunity
Financial Resources	1	5	4	1	Opportunity

2.8.2 The Basis for the Evaluation

The evaluation is based on a few resources: the annual reports and research from internet of WPP and competitors; the author's personal experience, including both the

working experience in WPP and Dentsu; as well as opinions of senior people in the industry.

2.8.3 Opportunities for Retaining MNC Clients

WPP is very well positioned for the MNC business. Its successful Differentiation strategy, combined with its well-established brand name and effective marketing, make it a strong player in maintaining MNC clients, especially since these prove to be its significant advantages when compared to local competitors. WPP's high cost is an opportunity for it to maintain Differentiation in order to retain MNC's business. If costs are driven down, some Differentiation will disappear, and this would become a threat in retaining MNC business.

2.8.4 Threats for Retaining MNC Clients

WPP does not face much threat in regards to maintaining MNC clients. Some threats, such as its lacking guanxi relationship, and lacking local staff and local knowledge compared with local competitors are not critical to get and retain MNCs. The main competitors to fight for MNC clients are the other four big ad groups, and compared to them, WPP is not at a disadvantage when it comes to the threats mentioned above.

2.8.5 Opportunities for Obtaining Chinese Clients

WPP does not have overwhelming strength in the KSFs needed to obtain local companies, but its comparative strength in brand, marketing, financial resources, and first mover advantages gain the company some opportunities.

2.8.5.1 Well-known Brand Name

WPP and its subordinates, such as Ogilvy & Mather, JWT, and Grey have well established their brand names in China, which is appealing to both MNCs, as well as Chinese companies. In 2008, WPP surpassed Omnicom to become the world's largest communications and marketing group in terms of revenue. This prestigious position gives WPP superior opportunities when competing in the market.

2.8.5.2 Marketing

WPP is an expert in marketing, which includes being an expert at promoting itself. Its subordinates often act as market experts by giving speeches, seminars and workshops to promote the companies' services and for analyzing market trends. In the beginning, WPP's reputation was promoted by its famous subordinate brands, but along with its

growth, WPP's brand name also promotes the subordinate companies, and thus a synergy effect is achieved.

2.8.5.3 Financial Resources & First Mover Advantages

WPP is currently in a prestigious position, and it is one of the most powerful players in the market. First mover advantages make it easier to acquire and merge smaller companies, while affluent free cash flow provides adequate investment capital.

2.8.6 Threats for Obtaining Chinese Clients

WPP is very weak in the KSFs for supporting business with local companies. It faces great threats such as a missing Low Cost strategy and guanxi, as well as being unable to retain local staff. The Differentiation adds cost, and it becomes a threat.

2.8.6.1 Low Price

WPP carries high fixed costs and charges a significantly higher price than indigenous Chinese firms, which is the greatest threat the group is facing. Take for example Dentsu. The Japanese firm is well known for lower rates than various western groups, and thus the firm achieved higher percentages of local clients among the five big

ad groups. As low price becomes the most significant KSF in the industry, WPP needs to find ways to mitigate the threat in order to keep competitive advantages.

2.8.6.2 Guanxi Relationship

Guanxi relationship is a KSF in the advertising industry, especially in China's market. The importance is significant especially when the supplier and buyer both have high power. To better manage their power, WPP needs to establish a good guanxi with them. The best way is through getting and retaining local staff since they are guanxi masters in China market.

2.8.6.3 Getting and Retaining Local Staff

As identified above, local staff is a KSF for success in the Chinese market. WPP's good reputation and good compensation enables it to get local talents; however, the difficulty for local staff to get to top management positions has made the group a training school to some degree. Junior staffs come for several years and leave to open their own companies. The high turnover is a threat due to the loss of investment on the employees, and due to the potential loss of clients, since some staff may take these clients away after

developing a strong guanxi with them, and by offering cheaper prices with the same quality.

2.8.6.4 Differentiation (Creativity)

As a competing KSF to Low Cost, Differentiation drives up costs and becomes a barrier to low prices; therefore, it is a threat for local Chinese clients.

2.9 Strategic Alternative

Since WPP has demonstrated its strong position in retaining MNC clients, but weakness in obtaining local clients, one strategic alternative is proposed that aims to raise WPP's opportunities to obtain local Chinese clients in order to achieve its long term goal of growing revenue and expanding its market share in China.

The proposed strategic alternative is the acquisition of a successful local firm as a separate, largely independent division. This would involve promoting local employees to top management to strengthen loyalty and better utilize their strengths to develop business relationships with Chinese companies.

The acquisition will maintain its independence and will be given a freedom to pursue and obtain Chinese clients that understand the value of long-term branding

strategy and will be receptive to a collaborative relationship. It will adopt a centralized structure and hire cheaper local employees.

Local employees are cheaper and much more knowledgeable compared to western expatriates when it comes to attracting local business. Through promoting them to top management, WPP can save costs and thereby offer cheaper rates to clients. With a Chinese management team, local staff will be more engaged and feel an ownership of the company that will breed loyalty.

3: IMPLEMENTATION ANALYSIS

An implementation analysis determines whether the internal capabilities of WPP are, or could be, made capable of achieving the strategic alternative proposed in chapter two. The “Diamond-E Framework” is used to evaluate the strategic alternatives based on the environment, resource requirements, management preferences and organizational capabilities (Crossan et al, 2005).

An alternative assessment is conducted for the strategic alternative: the acquisition of a successful local firm as a separate largely independent division with Chinese as top management.

3.1 Evaluation Criteria

The evaluation criteria include required management preferences, required organizational capabilities, and required resources. Management preferences are what senior managers are trying to achieve by making a decision based on the criteria, their personal competencies and their values, as well as their attitudes and goals based on prior experience. Organizational capabilities are the fitness of the strategies within the existing

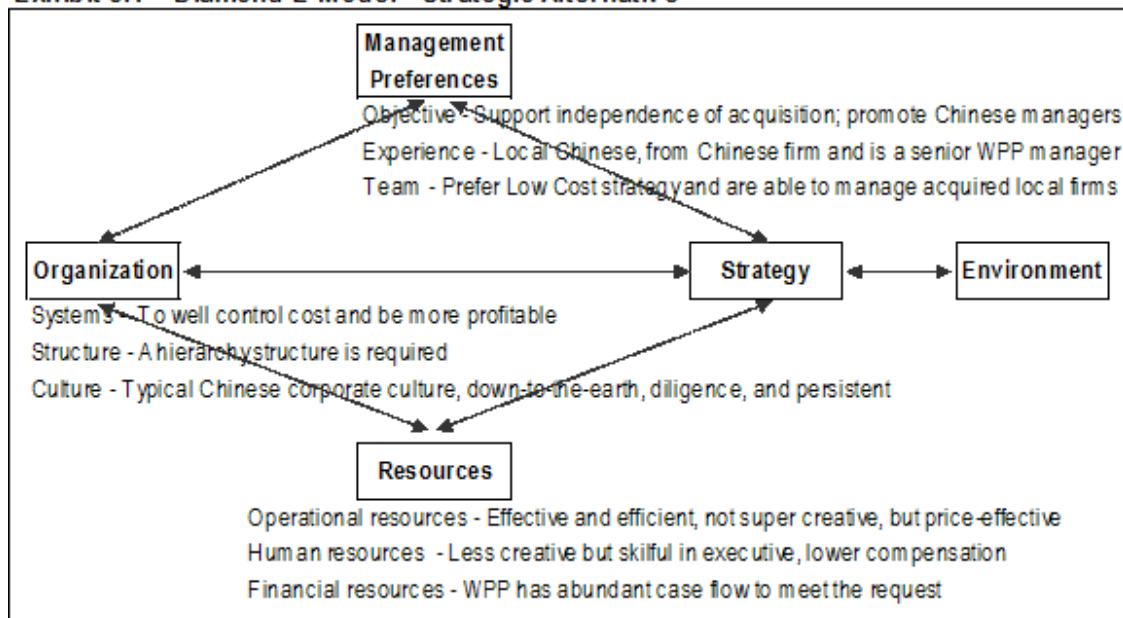
systems, structures and culture of the company. Resource requirements are the operational, human, and financial guidelines affecting the company.

3.2 Alternative Assessment

A proposed strategic alternative must be consistent with both the competitive bases of the industry environment and its internal capabilities. Only if an alternative is consistent with the internal capabilities can an alternative succeed.

Exhibit 3.1 demonstrates the required Management Preferences, Organization and Resources for this strategy.

Exhibit 3.1 – Diamond-E Model - Strategic Alternative



3.2.1 Management Preference

Management preferences are what senior managers are trying to achieve by making a decision based on the criteria, their personal competencies and their values, and their attitudes and goals based on prior experience. Three management preferences are assessed: objectives, team, and experience.

3.2.1.1 Management Objectives

The acquisition of a strong local firm matches WPP's existing objective to grow revenue and expand market share. In fact, it is consistent with WPP's acquisition strategy regarding majority ownership. The required management objectives are to support independence of the acquired firms using Low Cost strategies and to promote a Chinese senior management team.

Gaps in Management Objectives

Historically, the management objectives were to earmark a local acquisition into WPP by forcing a Differentiation strategy. MP should be willing to concede at least on a contingency basis that the local companies can operate independently using a Low Cost strategy.

Historic management objectives also preferred to promote westerners and Chinese from HK/Taiwan to be management. It is assumed that local employees are not somehow as capable.

Suggested Gap-bridging Solution 1

Raising locals to senior middle management, and then transferring them to the headquarters to learn, build relationships, and enable senior management's confidence in their ability and loyalty.

Cost: US\$0.1M/year

Assuming the training session in the headquarters is one month and costs US\$300 per day, and adding the roundtrip flight ticket of US\$1000 per person, the first year's total cost for ten people is $US\$(300*30+1000)*10=US\$0.1M$.

Benefit: US\$8M/first year

With an experienced Chinese Chairman, and with a strengthened Chinese management team, WPP would raise profit margins through the effective management of Chinese clients and through retaining local employees. The benefit assumption is based on the improved operational efficiency and decreased turnover rate. The assumed profit margin is raised by 1% from 15% to 16%. WPP's revenue is US\$800 million in 2008

with the one percent increase in profit margin, so in year one the improved profit is

$US\$800M * (16\% - 15\%) (\text{Margin}) = US\$8M.$

3.2.1.2 Management Experience

Management needs understand China's market and Chinese clients well. Having a guanxi relationship with several important stakeholders, such as key clients and media, is especially important. The ideal management is at the top of the China operation. They must be Chinese, and they should be Chinese who grew up in China. For instance, if the person worked in domestic Chinese companies and was made a senior manager in WPP, that person would better know how to manage WPP in the changing China market. The competent senior staff need to demonstrate capability, knowledge, and loyalty to WPP. The successful candidate should understand Chinese customers well, and have superior management skills to be able to lead and manage a local management team.

Gap in Management Experience

There is no Chinese top manager on board. The Taiwanese current chairman of WPP Greater China, T.B. Song, is not likely a very suitable operational manager because all of WPP's experience is in Differentiation. He does not have the right experience and background for the necessary Cost strategy, and he may feel uncomfortable with it. In

fact, WPP does not lack the right type of talent. Not hiring local Chinese experts suggests a “Western global strategies are superior” attitude. Therefore, WPP’s top management needs to change its attitude and appreciate the value of Chinese experts.

Suggested Gap-bridging Solution 2

Promoting a senior local Chinese expert to be on top of the Chinese operation could fill the management experience gap. The person should be competent, have experience with, and knowledge of, Low Cost strategies and be a China realist. Additionally, the person needs to be given high authority in hiring his/her own Chinese team.

Cost: US\$0.3M/year

The salary is similar to T.B. Song’s, or less. Chinese people normally are paid less than westerners at the same level. The top manager is in a similar situation.

3.2.1.3 Management Team

The required management team should be senior Chinese managers preferring a Low Cost strategy, as they are required to manage the newly acquired local firms. The same Chinese background makes them easier to understand and learn from successful

local agencies. These people should also be guanxi experts, who understand Chinese clients, acknowledge their Low Cost preference, and are able to strengthen and improve relationships with their clients.

Gap in Management Team

As with the absence of a top Chinese manager, the current senior management team is mainly composed of western experts; especially people from Taiwan and HK. This may reflect that WPP's managers tend to have an imperialist attitude that they know better than locals because of their global success, and their lack of understanding of Chinese, such as the difference between people from China and Taiwan and HK. In fact, the markets of Taiwan and HK are more mature and closed to western countries, but they are significantly different from mainland China. Taiwan and HK managers are trained in the old style of command management which alienates local mainland Chinese who grew up under communism, so that these managers would find it more difficult to build good relationships – especially with anyone subordinate. These cross-cultural differences in management practices, and the lack of opportunities for advancement, lead to the high turnover rate in WPP. For example, Ogilvy has a 30% employee turnover rate, which is 15% higher than the industry average.

Suggested Gap-bridging Solution 3

Allow the new Chinese top manager to create a new cost management team, which is composed of senior Chinese managers to manage acquired companies.

Cost: US\$0.4M/year

Chinese managers are less expensive than westerners are. Most are promoted from lower positions with lower salaries, and a double increase in salary for the promotion would be sufficient. Assuming that the original average salary of these mid-level Chinese managers is US\$40K and ten people are promoted, then the increased cost is $US\$40K * 10 = 0.4M$

3.2.2 Organization

Organizational capabilities are the fitness of the strategies within the existing systems, structures and culture of the company. These are the internal organizational attributes that affect how people and work are organized. Three organizational capabilities are assessed: system, structure and culture.

3.2.2.1 Systems

The required systems include IS, Control, Hiring, Evaluation, Artistic and Creativity, which would enable the Low Cost division to control cost well, and to effectively hire Low Cost, but capable labour, and thereby be more profitable.

Gap in System

The acquired successful firm must have already owned a system that fits with a Low Cost company, but it may not be efficient enough because the acquired firm is less likely to be able to afford and/ or willing to adopt effective and expensive systems considering their Low Cost preference.

Suggested Gap-bridging Solution 4

Since WPP has owned all kinds of very capable and expensive systems, and it can easily transfer the costs to the MNC clients who are willing to pay a high price for Differentiation, WPP could contribute its advanced systems to the acquired Chinese firms without adding too much cost.

Cost: US\$10,000

Because WPP can allocate the cost into its Differentiation discipline, there is no additional cost aside from installing the systems in the new company and the related training costs.

Benefit: US\$50,000

Assuming that the acquired company has revenues of US\$1M, with a profit margin of 20%, the installed system can improve its profit margin by 5%. The benefit is $US\$1M * 5\% = US\$50,000$.

3.2.2.2 Structure

The acquisition must be efficient and cost saving in operation, thus a hierarchy structure is required. A functional organizational structure is preferred, and it can be rearranged as product organization on a project base. Since China is a collective society, and most Chinese companies have a hierarchical structure, the required system is immediately available in the newly acquired firm.

3.2.2.3 Organization Culture

The required culture is a typical Chinese corporate culture, down-to-earth, diligent, and persistent, which can support a Low Cost strategy by satisfying client needs with a

hard working attitude. The acquired Chinese firm already should have a similar culture, and WPP always respects and encourages sub-ordinate companies to retain original corporate culture. Thus there is no gap in organization culture.

3.2.3 Resources

Resource requirements are the operational, human and financial guidelines affecting the company. These are the internal resources specifically related to the strategic alternatives being proposed. Three resource requirements are assessed: Operational Resources, Human Resources, and Financial Resources.

3.2.3.1 Operational Resources

The required products and services will not be superlatively creative, but price-effective, providing more options for clients to choose from that meet the clients' needs for greater effectiveness and efficiency. The acquired firm needs a separate location, which is less expensive in rental fees, along with cheap operational resources, such as utility and transportation fees. Since the acquired competitive local company would have these in place, WPP would only need to maintain that status quo. Thus, there is no gap in the obtainment of the needed operational resources.

3.2.3.2 Human Resources

The required personnel are less creative, but are skilful in an executive capacity. They need to understand clients' needs well and must be willing to follow the clients' ideas while being satisfied with lower compensation.

Since WPP does not have this type of employee, and it is unrealistic to recruit from the existing WPP employees because they would not be willing to accept a lower status, wage and perks, the preferable solution is to retain the employees who worked in the acquired Chinese firms, and maintain the job responsibility and compensation that was in place before the acquisition.

3.2.3.3 Financial Resources

To acquire or merge a successful Chinese firm, capital investment is required. Financial resources are WPP's strength; WPP had a US\$1.2 billion free cash flow in 2008, so WPP has abundant cash flow for such ventures.

3.2.4 Cost of Strategic Alternative -- US\$0.6M

PS: by buying ten similarly sized companies, the cost would be US\$6M

The Cost of the acquisition of a successful local Chinese firm is mainly the capital investment. The amount is various and depends on the acquired company's equity value, size, and financial performance. Since many of the Chinese advertising firms are start up companies, they will not cost as much as other mature companies that WPP acquired in developed countries.

Assuming one of the acquired small sized company's revenue is US\$1M, WPP purchases 60% of the share in order to control the company, with a cash cost of US\$0.6M.

3.2.5 Benefit of Strategic Alternative -- US\$1.63M (five years)

**PS: by buying ten similar size companies, the Benefit would be US\$16.3M
(over five years)**

Since the acquisition would begin to grow its Chinese business at the growth rate of local Chinese companies or better because they are using the WPP brand name but providing Chinese services at Chinese costs, over five years that should amount to a lot of extra business.

Assuming the company is in a 25% growth rate, since the average growth rate of small private companies is 21%, WPP could easily find outstanding companies with a

growth rate of 25%. By utilizing WPP's brand, and by providing Low Cost products to Chinese clients, the company is forecasted to have a revenue growth of 30%. Moreover, assuming the profit margin of that company is 20%, by using WPP's superior system, the new acquired company will improve efficiency, thus raising the profit margin to 30%. The benefit of the first year is $1M * 30\%(\text{Margin}) * 60\%(\text{Sharing}) = \text{US\$}0.18\text{M}$. The five years accumulated benefit is

$\text{US\$}1M * 30\%(\text{Margin}) * 60\%(\text{Sharing}) * (1 + 1.3 + 1.3^2 + 1.3^3 + 1.3^4)(\text{Revenue Growth}) = \text{US\$}1.63\text{M}$.

3.3 Summary of Alternative Assessment

In sum, the proposed strategy is consistent with most of the existing organizational capabilities and resources, and the main gaps that exist in management preferences could be filled. After evaluating the cost and benefit analysis of the suggested gap-bridging solutions, management preference should be adjustable.

4: RECOMMENDATIONS

This chapter will summarize the findings, recommend the best alternatives based on previous studies, explain the gap bridging solutions, and offer a timeline for strategy implementation.

4.1 Summary of the Strategic Alternative

Based on the analysis of the industry and rivalry study and the evaluation of internal capabilities, the best strategy for WPP China is to take acquisition of other successful local Chinese firms as an independent Low Cost division. To make the acquisition work, WPP needs to hire a competent and experienced Chinese Chairman to head the decision making board in China. He or she should be authorized to create his or her own team. This team should be composed of ten senior Chinese managers promoted from WPP companies. These managers will be sent to manage the acquisition and they will report directly to the Chinese Chairman. The promotion of Chinese employees will also motivate lower level Chinese staff to improve productivity and loyalty; therefore

achieving WPP’s long term goal of being more profitable by increasing revenue growth and expanding its market share in China.

4.2 Summary of Gaps and Bridging Solutions

To implement the above strategic alternative, WPP has to bridge the gaps identified in the areas of management preferences and organization capabilities. Exhibit 4.1 illustrates details of the identified gaps, recommends solutions, and provides cost and benefit analysis.

Exhibit 4.1 - Summary of gaps and bridging solutions

	Gap	Solution	Cost	Benefit
1	Remark acquisition by forcing a Differentiation strategy; promote westerners and Chinese from HK/Taiwan	Raise locals to senior middle management and transfer them to headquarter to learn and bulid relationships	US\$0.1M/year	US\$8M /first year
2	No Chinese top manager on board	Promote Chinese Chairman on top of China operation	US\$0.3M/year	
3	No senior Chinese management team	Promote Chinese management team	US\$0.4M/year	
4	Acquired firm's lack of effective systems	WPP contributes advanced systems	US\$10K	US\$50K

As indicated in the table above, most of the gaps involve management preferences.

The lack of senior level Chinese managers puts WPP at a disadvantage for getting the Chinese business and for retaining the best Chinese talents. To change WPP’s top

management preferences, a Chinese management team must be transferred to headquarters for training and gaining trust. Thus, the gap bridging solution is to promote a Chinese Chairman on the board of China's operation, to give him or her the authority to create his or her own team, and to provide overseas training. With the cost of US\$0.8M on these Chinese experts, it is expected that WPP would gain US\$8M in the first year by benefiting from the increased profit margin. In the long term, WPP will attract and retain more Chinese talent and the benefits would be invaluable.

The other gap is the acquisition's lack of effective systems. WPP could provide its own systems and adjust them to fit with the acquired companies. By only spending US\$10K, the improved efficiency would benefit WPP US\$50K.

4.3 Action Plan

4.3.1 Short Term (Within Three Months)

The immediate plan is to promote the experienced Chinese expert to be the Chairman. WPP's top management have to realize the necessity. They need to find this person from numerous WPP companies in China. Not only do they need to find this person, but also WPP's top management needs to understand the situation and change

their attitudes towards the strategy in China. If they do not change their minds and give enough authority, they will not get such a person on board, and therefore nothing will change. Once the candidates are selected, they should be transferred to headquarters for one month's training. During this period, the successful candidate should be able to prove his or her capability and build a relationship with WPP's top management.

4.3.2 Medium Term (Three Months to Six Months)

Once the Chinese Chairman is on board, the Chairman needs to create his or her team. The new Chairman should have set up new goals, strategies, and implementation plans which are endorsed by the team. The team members should be sent to headquarters for training during this period.

After finishing their training section, some selected managers could take over already acquired local firms. The required system updating could be installed during this period as well. Managers need to oversee the acquisitions according to the new strategies and firmly implement them.

4.3.3 Long Term (6 Months to 2 Years)

After six months, the Chairman and his/her team need to expand and acquire more local successful firms. Once this model is proven successful, they need to acquire more firms to enlarge the effect. If one acquisition can bring in US\$1.63M in five years, then, potentially, ten firms could make ten times the profit. Therefore, the management team needs to carefully select target firms to ensure that their business will be a beneficial supplement to the WPP Group.

Appendix A (Davis, 2009)

Drafted on the last day of 2008

Finally, it is the last day of 2008! I believe that most everyone feels the same way I do about this year: the world is changing and is unpredictable. In 2008 we saw the tragedy of the Sichuan earthquake, the passion of the Beijing Olympics, moral issues raised during the SanLu melamine scare, Barack Obama becoming the first black President of the US, the Bombay terror attacks, renewed violence in the Middle East and, of course, the financial tsunami sweeping the entire world.

Over the course of the year, Ogilvy China also weathered many changes. Most regrettably, we had a very challenging financial year and missed our financial target. In fact, we were far from achieving this. As a result, I am pained to report that we will not be providing bonuses this year. I am extremely sorry for this. I want to let everyone know reasons for our collective failure and what we must do to make sure it does not happen again. In 2008, we faced the following:

1. Unclear control and supervision
2. No improvements in our efficiencies.

3. Unsatisfied clients that terminated contracts early
4. Unrealistic business judgment
5. Unenthusiastic pitches for new business that was lost to competitors
6. ...?

But here I should mention our PR team; they not only met but exceeded their targets. A very special “job well done” must go to Scott and Debby and their team. Thank you for your efforts and contributions.

As we enter 2009, and against the backdrop of the global financial crisis, there is certain to be more instability. As a result, we need more cautious planning and to act accordingly. First of all, we need to adjust our attitude. Ogilvy China, in 2009, should adhere to two basic principles:

1. Enthusiasm/Optimism. In all economic downturns, there are companies that still manage to grow strong, profit and thrive – the Ogilvy Group must be one of them.
2. Moderation. Although China is a growing market, we should demonstrate moderation and control in our operations, which will provide the security if we face unforeseen financial challenges.

We must also change the way we act! A few thoughts here:

1. We, including planners, account service and creative professionals, must be more active and engaged in our clients’ businesses. This means doing a better job of understanding

their operations, strategies and market positions. We must stand alongside our clients in facing business challenges and changing market conditions. We must infuse our creativity – our core competency – into our clients’ businesses. Our creative people can’t simply sit at home, receive the brief, and then “do creative.” Our advertising must be more than just TVCs or print ads, as our creativity should blaze new paths of communication which aims to help our client’s business. The best ideas are still undiscovered. If Ogilvy’s creative people think only about the awards, TVCs and print ads, or even scam ads, I will encourage them to leave. Our creative people should be forbidden from working on scam ads. I’m not against awards, but the focus must always be on our clients’ businesses, and let the chips fall where they may.

2. We must work to deeply understand the client’s business model, especially their financial systems/cycles and the up/downstream structure of their industry. These factors will impact the client’s short-term marketing and communications strategy. We should incorporate these considerations in the advice we give clients and adjust our service accordingly.

3. For our operations, to improve flexibility, speed and efficiency, we should pay more attention to written agreements, such as bill estimates. Keep all written business communications transparent and in neat order to avoid potential payment disputes.

4. Go out into the world with your clients. Directly face consumers, retail stores and dealers in the 2nd or 3rd tier markets. Share your views during these investigations, and form a

creative strategy from the insights. This is especially important for our senior creative people. The time to do it is now.

5. There won't be any opportunities for taking it easy. We will not allow this. We will not be a team of "average performers" who drive out people who are destined for excellence. This only happens to teams who do not transform and adapt during the hard times. This will not happen to Ogilvy. Never. We will not tolerate laziness and complacency of any kind!

6. We should pay more attention to on-the-job training. It's important to train junior staffers by working with them hand-in-hand. Leaders must be generous with their time. No training is better than working directly with a skilled practitioner. Training junior staff is even more important during the hard times, as it solidifies our foundations and gives our clients more confidence. Training during the hard time makes it easier for us to work together, from A/S, planning, and creative, to media, PR, and action- no discipline is exempt. Creative people may have great marketing strategies, planners could be on the front line of business consulting, A/S may have really creative ideas, PR professionals may have the most creative product branding ideas. In bad times especially, we need to be considering all of the available angles and resources to help our clients grow.

7. We need to remember that we are "Brand Stewards." And branding is a long-term project. In 2009, clients will be looking for quick solutions to their sales problems. Ogilvy should

be focused on being “effective in a short amount of time, but also beneficial to long-term branding.” That’s the key to sustained success in hard times.

In fact, we should be doing this all the time, but under the ordinary circumstance, we take this procedure more seriously than we do finding solutions to solve our clients’ problems.

Ogilvy China remains in the leadership position in Greater China, and irrespective of the downturn, Ogilvy is still regarded as the best option in the eyes of many clients. However, we must be also aware that we have already become too lazy and proud and have been resting on our laurels and enjoying our good reputation. We considered ourselves infallible and even arrogantly believed that we could engage consumers without actually understanding them. This has destroyed the Ogilvy brand and David Ogilvy’s vision: “We sell or else!” Remember?

It is the beginning of the New Year, and I hope everyone has a happy, exciting and challenging 2009! At the same time, let’s remain focused and ambitious as we strive to create the most influential and effective campaigns and to remain “the most international of the local firms and the most local of the international firms.”

And Happy New Year!

2008, Dec. 31st TB

P.S.: I returned to Beijing from Wuhan last week. I was attending MengNiu’s Central China Dealers’ Meeting. Even MengNiu suffered a great deal from the melamine event, however

they have achieved 80% of their budget targets. In addition, the sales volume of Telunsu, an advertising client handled by the Ogilvy Guangzhou office, hasn't been affected at all and achieved 100% of their targets; 60% growth compared with the previous year. That's the power of branding.

During this meeting, MengNiu made many revolutionary breakthroughs: growth is not required but a revolution in procedures and a grounding in the brand spirit is. I found that they have a very clear picture when they talk about their brand, much like we do. I'm very surprised with the incredible progress they have made.

The "Ogilvy Ivory Tower" will not protect us any longer. Dealer meetings are an excellent way for us to learn — all of us. When is the last time you attended a dealer meeting?

P.P.S.: I hope you don't feel that this note is corporate bullshit. It is NOT. I am enthusiastic and optimistic, and energized by this challenge, and we will not tolerate anyone that does not feel the pressure to change, adjust, do great work and add value to our client's brands.

This is time, in David Ogilvy's words to: "Raise Your Sights and Blaze New Trails!"

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