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The Role of the Advertising Agency: Standardization/Adaptation

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Abstract

In this article the role of advertising agency in global marketing strategy has been examined. The developed matrix examines the contingencies that influence the success of the company's global advertising strategy. This research reviews how the company, as the principal, may determine the nature of its relationship with the advertising agency and the degree of adaptation vs. standardization necessary in each situation.

Keywords: advertising agency, adaptation, standardization
JEL Classification Codes: M37

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Introduction

The purpose of this research is to understand the role the external advertising agency plays in a global marketing strategy. The advertising agency is defined as "a service organization that specializes in planning and executing advertising programs for its clients" (Belch and Michael, 1995). Advertising agencies may be purely local, or part of an extensive global company (holding company) such as Omnicom Group, WPP Group and Interpublic Group of Companies. The consolidation of agencies allows companies to meet the demand in global markets and facilitate the decision of whether to standardize advertising globally, or adapt it to culture or nationality (Wells et al., 2000). The modern advertising agency provides various types of services to clients, including media planning and buying, research, market information, sales promotion assistance, campaign development, creation of advertisements; services created to help advertiser achieve marketing objectives(AAAA.org, 2011; Enotes.com, 2011).

The relationship between agency and client introduces the challenge of standardization versus adaptation; whether to apply a universal or uniform advertising strategy. The argument is that markets are heterogeneous, both across and within countries (for instance the US), and are comprised of different market segments. These require the use of targeted advertising campaigns. However, the claim of universal appeals makes possible the usage of a more standardized advertising approach in relation to these markets (Fatt, 1967). International advertising has the possibility of breaking down national economic boundaries and establish a common mode of communication, trademarks, labels, slogans, symbols and corporate names. Whereas some scholars, such as Levitt (1983), emphasize the advantage of having a global approach (mainly economies of scale for R&D, production and marketing, and most importantly the presentation of a consistent corporate and brand image) many researchers agree that there are contingencies calling for either adaptation, standardization or a "compromise" solution (Melewar and Vemmervik, 2004). This research attempts to identify the possible roles of advertising agencies as driven by the need to adapt or standardize.

Adapt or standardize: the matrix for strategy

The analysis of the developed matrix examines the contingencies that influence the success of the company's global advertising strategy, drawing upon Solberg (2002)'s matrix for the typology of governing strategies in international marketing. Based on this analysis tool, the company, as the principal, may determine the nature of its relationship with the advertising agency (in terms of degree of autonomy in designing the campaign) and the degree of adaptation vs. standardization necessary in each situation (Solberg, 2002). The two independent variables that set the parameters for the matrix are the company's level of knowledge of the local market, and the cultural distance between the home and local markets for that product category. The term local advertising agency is used, as the agency employed in the local, overseas market, which can be either a locally setup agency or a local office of a global advertising agency, and the global agency as the agency used by the headquarters (HQ) to design the global campaigns or the common concept that can be used globally.

I define local market knowledge as "knowledge that is specific to a host country regarding its language, culture, politics, society, and economy" (Lord and Ranft, 2000) and cultural distance as "the difference between the national cultural characteristics of the home and of the host countries" (Lu, 2006) . The impact of each independent variable is significant in setting a strategy for a global advertising campaign as the decision to either standardize or adapt is successful pending on preexisting conditions. As in research on internationalization strategy, (Andersen, 1997; Solberg and Askeland, 2006) the level of market knowledge determines the level of control maintained by the principal company. A lower level of knowledge thus results in a higher level of local adaptation and information asymmetry. Cultural distance is often envisaged according to Hofstede's (1980) cultural dimensions, but in the case of global advertising strategy the unit of analysis cannot be a culture in general, but a culture's attitude towards, and usage of, a particular product or service. For example, consider the countries Malaysia and the Philippines in Figure 1:

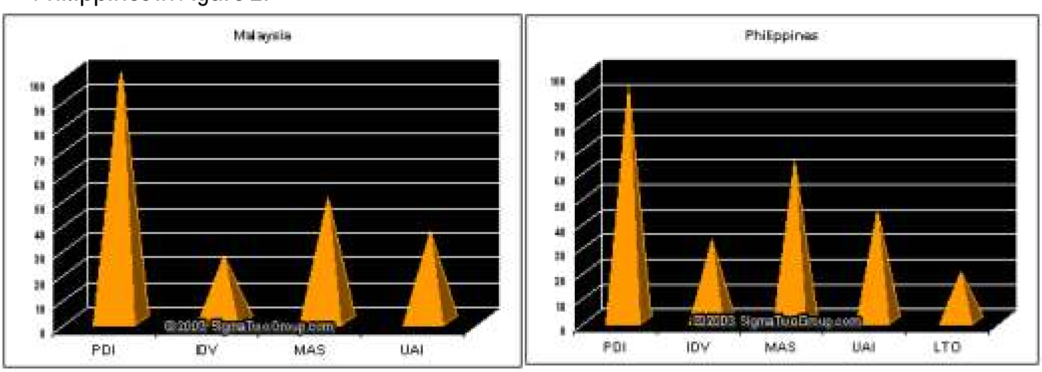

Figure 1. Hofstede's mapping of Malaysia and the Philippines
Source: http://www.geert-hofstede.com

According to Hofstede, they are culturally very similar. However, a review of advertisements for the Unilever's shampoo brand Sunsilk will reveal very contradictory execution styles. The Malaysian advertisement considers the cultural factor of women covering their hair and act modestly, whereas the Philippine's advertisement favors a more sexual and free-spirited approach (YouTube, 2011).

The proposed matrix outlines four different situations for an international advertisement strategy. Each rest upon the predefined variables and those propose different roles for the external advertising agency (see Figure 2):

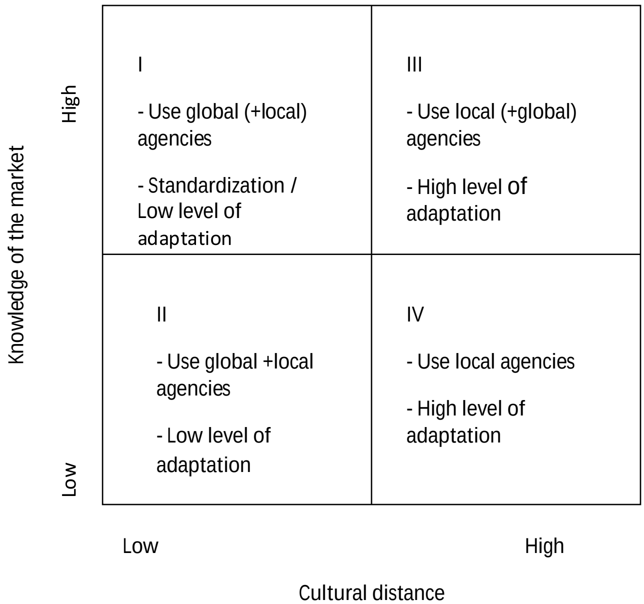

Figure 2. Matrix for International Marketing Strategy

I. When the company has high knowledge about the market and the cultural distance is low, the role of local agency is narrow; the company employs the agency only for the implementation of the campaign, for instance for media buying and translation and standardized campaign. This case should call for a strong reliance on a global advertising agency to develop a global approach based on homogeneous market characteristics.

II. In the case when the company has a low level of knowledge about the local market, but the cultural distance is not high, the company can use a standardized strategy, employing almost the same campaign as in the home market and relying on the global agency. The local agency is given a certain degree of power and responsibility, especially for gathering market knowledge and tracking advertising performance and targeting. In this case the company might has the disadvantage of not having enough knowledge about the market (therefore there might still exist information asymmetry problems) and the level of autonomy of the agent can vary depending on how the two companies negotiate the relationship.

III. Finally, when the company has a high level of market knowledge, but there is high cultural distance between the home market and the local market, the company should use adaptation in its advertising strategy. It might involve its global agency, while especially granting high autonomy to the local agency. However, as the company has the knowledge necessary to understand to what extent it is necessary to adapt the campaign, the information asymmetry is smaller and the company can continuously track output to identify opportunities for standardization.

IV. High cultural distance from the home market when the company has a low level of knowledge about the local market dictates a strong need of relying on the use of the local agency, which is probably characterized by high levels of adaptation. In this case the company is much more dependent on the local agency, which has more autonomy in designing or adapting the campaign to the specificities of the country. In this case the company would most probably face a high level of information asymmetry in regards to market knowledge and output tracking.

The advantage of the matrix is that it analyses in more detail the complexities involved in deciding the level of autonomy the agency has in executing its primary role in relation to the client company; namely conveying information about the product from the company to the agency and further to the consumers. However, its limitation lies in not outlining the necessary control mechanisms for the second flow of information, the one from the agency to the company; the learning process for the company based on the feedback from the agency. This is the problem of information asymmetry, outlined next.

Adaptation vs. Standardization: Information asymmetry

Information asymmetry is the unequal distribution between two parties who are in some relationship with another (Eisenhardt, 1989) and the level of information asymmetry (of local market knowledge) is expected to vary between the four strategies described. The highest level of information asymmetry is in the situation of high cultural distance and low knowledge about the local market; the medium level is expected to be encountered in the case when the company has low level of knowledge about the market, but there is low cultural distance between the two markets; low information asymmetry should be experienced when there is high knowledge about the market.

Information asymmetry is often the source of struggle between the principal's preference for standardization and the advertising agencies' push for adaptation. Whereas the principal seeks economic efficiencies and a global approach to the execution of the marketing campaign; the agencies seek to make their mark and build a portfolio. As in any agency-principal relationship, the objective of each party is its own self-fulfillment and in the case of the advertising agency this is winning awards to attract new clients and build status as an opinion leader within the field. Unfortunately for the clients they attract, these “advertising awards are almost never granted on the basis of documented effects in the marketplace”, thus “[principals and agents may]cooperate for years without any party knowing more precisely to what extent they are sharing a common and valid view on advertising objectives, strategies, and techniques" (Helgesen, 1994).

Information asymmetry as a source of conflict comes from the inherent status of knowledge is in this type of relationship. As stressed by Sharma (1997); "where professionals are agents, division of labor or also a division of knowledge", which is "a consequential implication of reciprocal dependence and vulnerability between participants". The party with the highest degree of knowledge is thus assumed to hold the greatest amount of power in deciding adaptation vs. standardization. Although the principal has hired the agent due to a lack of knowledge, a prolonged asymmetry may be at the expense of global efficiencies from increased consumer homogeneousness (Sharma, 1997) . To illustrate, consider this hypothetical example:

Wave-alicious is the manufacturer of microwaveable meals. In its domestic market, a microwaveable meal is an acceptable form of family dinner and the meals are marketed very successfully as 'quick and easy ways to feed your entire family'. Wave-alicious also sells its products in many foreign markets, but because of a low level of market knowledge it uses local advertising agencies to develop and execute individual strategies. In addition, the cultural distance is highly varied in terms of the taste, use and attitudes towards microwaveable meals; calling for local adaptation. Many years into its internationalization, Wave-alicious is performing well, but the profit curve is stagnating and the company receives very little market knowledge from its agencies. Wave-alicious knows that the output of each agency is quite different in each market and as such, consumers would not be able to recognize the brand across markets. Unbeknown to Wave-alicious, several markets are being targeted in increasingly similar ways by different agencies, only using different branding strategies and execution styles. Wave-alicious now suspect that some markets have even become more or less homogeneous in terms of cultural distance from the domestic market as the use of microwaveable meals has increased, but have no concrete market data to back this up. The company is now facing a problem with regaining control of its brand through information to increase the level of standardization in its global marketing strategy.

The above example illustrates the importance of managing information asymmetry. As Wave-alicious has not maintained a positive flow of information from its local markets there are now significant inefficiencies in targeting consumers as well as a perhaps detrimental fragmentation in the global branding strategy. If Wave-alicious had obtained this information sooner it would have been able to standardize more aspects of its global marketing strategy to maintain a stronger brand image across larger regions (i.e. moving from quadrant IV to quadrant II or III).

Conclusion

The role of the advertising agent is a complex dilemma on two sides of an inter-organizational dyad; the company hiring the agency vs. the agency taking on the client company. Global companies often strive for standardization in their advertising strategies but at the same time recognize a need for adaptation under certain conditions. Agencies seek to carve out their unique positioning in their competitive arena and avoid the standardized approach. Defining the roles of the agency in terms of level of autonomy is thus fundamental to managing a global advertising strategy. I have attempted to create a framework for analysis to identify the appropriate strategy for successfully balancing standardization with adaptation. The conclusion is that the role of the advertising agency is driven by the strategy of standardization/adaptation that the company adopts, based on the two independent variables I have identified.

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