

You would also want to guide students on which industries or sectors to choose. Very broad industries – for example, the world airline industry – are likely to overwhelm students with data. It might be helpful to encourage focus – for example, the airline industry in India, or similar.

Industry focus also reduces the risk of plagiarism. There are many student assignments of a similar nature available for a fee on the web, and it would definitely be wise to avoid allowing students to research the same industries in successive years. Requiring a specific focus on particular themes (e.g. internationalisation) or some less common concepts (e.g. the strategy canvas, cycles of competition, etc.) can also reduce plagiarism. Insisting on precisely citing sources for key data and points (through an endnote system or similar) makes simple plagiarism harder too, as well as being good practice: lots of out-of-date references might indicate plagiarism.

If allowed, students will find very helpful a couple of example assignments from previous years to guide them roughly on what they are supposed to do. A report length limit of around 2,000–2,500 words would encourage students to focus on what is really important. Requiring an ‘executive summary’ would also force students to consider what is really important and what are the key implications.

Over a two-semester course, this assignment could be stage one of a two-part assessment regime; the second semester could have as an assignment asking students to consider implications of the first part for the strategy of a particular company in the original industry or sector.

Case Example

Global forces and the advertising industry

The case on the advertising industry enables students to practice using the key techniques of Porter’s five forces and complementors, strategic groups and PESTEL. The accompanying Strategy Experience simulation further explores strategic issues in this industry.

This teaching note is focused on the key techniques introduced in Chapter 3 for undertaking an Industry and Sector Analysis of the Advertising Industry. The analysis should enable students to:

- assess the attractiveness of this industry, competitive rivalry and profit potential;
 - consider the basis for building competitive advantage in this industry and strategies that will deliver sustainable advantage in an industry undergoing such radical change by influencing the five forces;
 - Use strategic groups and strategic dimensions to understand competitors and analyse strategic opportunities
1. **Carry out a five forces analysis of the advertising industry with the data provided. What is the strength of the five forces and what underlying factors drive them? What is the industry attractiveness?**

Buyers: The Top 100 advertisers globally account for nearly 50% of measured advertising. Emergence of the changes in advertising agency remuneration driven by major FMCG

companies, such as Unilever and Procter & Gamble, who are re-negotiating accepted advertising agency remuneration models which require advertising agencies to share the risk as well as the success of their advertising campaigns created on behalf of their clients.

Suppliers: Major advertising agencies have the power to use contracts to lock-in specialist suppliers with specialist knowledge to help differentiate their offering on an exclusive basis. Small- and medium-sized agencies have to compete for these suppliers. Google is a potential supplier to advertising agencies, but is also a potential substitute.

Substitutes: Google and other search companies compete for a share of the marketing budget targeted by advertising agencies. In the case, it is pointed out that WPP the world's largest advertising agency sees Google as both a supplier ('friend') and a competitor ('enemy') and coined the term 'frenemy' for its relationship with Google.

Similarly, social media can be seen as acting as advertising substitutes, with the powerful word-of-mouth effect of Twitter, Facebook and other messaging apps replacing traditional media in advertising terms.

New entrants: Technologically focused 'digital' agencies and consultancies – in the form of companies such as Accenture and IBM and accounting practices like PwC and Deloitte – are taking more advertising budget away from 'traditional' media focused agencies. There are different levels of response from advertising agencies, depending on their size and access to capital for acquisitions.

Rivalry: Lower advertising budgets in Western Europe and North America; new technology-based entrants, increase the scope for rivalry. However, sector expertise and creativity can mitigate price-competition. The larger global players are consolidating into multi-discipline conglomerates by buying emerging specialist companies [this is explored in section 2]. It might be useful to ask students to compare how smaller and mid-sized agencies compete with the top five global players. Small and mid-sized agencies must have specialist industry sector knowledge in order to compete. Among the mid-sized to smaller agencies, the emergence of price competition.

Complementors: The Five Forces Framework should be used with care and is not necessarily complete in itself. Some industries have used the identification of a 'sixth force' in the analysis: organisations that are **complementors** rather than simple competitors. So a key question in the advertising industry is: are search companies such as Google, Bing and Baidu complementors, suppliers or competitors to advertising agencies? [Note: this is also explored in the section 2: Strategic Groups.] Where Google is used by advertising agencies as a 'media company' it can be viewed as a supplier and possibly a complementor if data is shared to 'add value' for strategic insight/foresight to the advertising agencies' offering. Where Google is used by *clients* of advertising agencies and does not give the agency complete access to search data analytics (as has been pointed out by WPP), Google could be regarded as a competitor or substitute. However, Google could be seen as a **complementarity** organisation if the relationship is open and mutually beneficial, that is, friend.

Industry Attractiveness: The ultimate aim of a five forces analysis and the fundamental question at its conclusion should typically be: is the industry attractive, in the sense of offering profit opportunities? It is easy to be dismissive about the advertising industry. However, Table 2 in the case indicates pretty good profit margins for the major players. It is also instructive to check the advertising industry or media industry (of which advertising is a large part) stock-market indices, as against the market as a whole. Over the last five years, US advertising agencies tended to outperform the New York Stock Exchange as a whole. This indicates that investors at least regard it as a relatively attractive industry, with good future profit potential. It is fairly easy to get free online updates on the advertising sectoral indices through BigCharts.com and similar. This would be a useful student exercise.

What is the industry attractiveness? Which forces are becoming more negative or positive for the major advertising agencies?

As can be seen from the case, **rivalry** has intensified with the development of new technologies, and the resultant emergence of search and social media as potential advertising media **substitutes**. Plus **buyers**, the clients of major advertising agencies, have put pressure on advertising agencies to accept a different remuneration model which has impacted on revenues and margins.

In order to counter these negative forces, major advertising agencies with the capital available have acquired smaller emerging **rivals** and **suppliers** in order to differentiate themselves from their competitors by being able to offer a wider range of specialist advertising and marketing services.

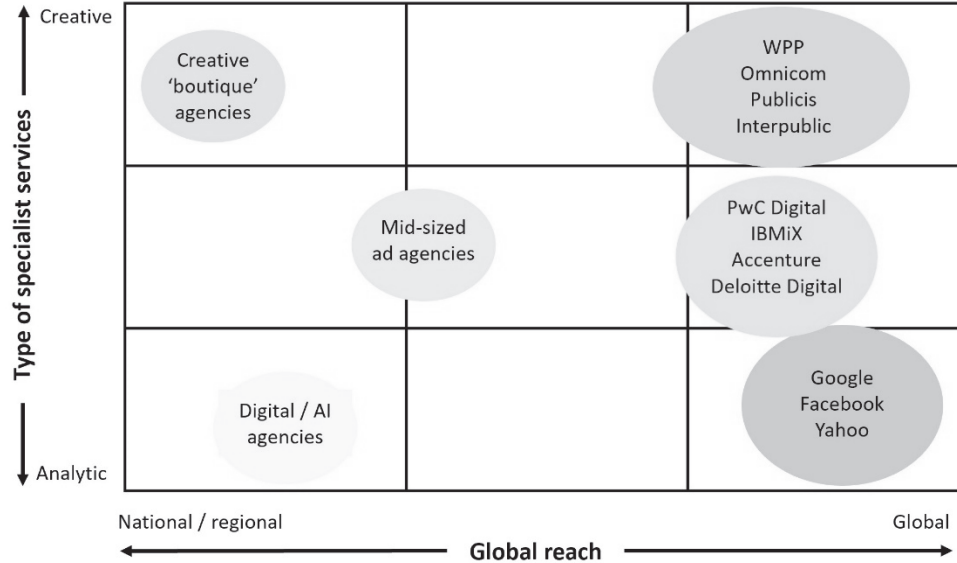
On the positive side, the holding company model offers a continued degree of flexibility and specialisation within individual agencies – the ‘unbundling’ of services – as clients demand more services in specialist channels in non-traditional areas and online, while being able to keep a global client’s overall spend within a single overall set of agencies. Unbundling may signal the structural end of the older-style ‘one-stop-shop’ agency, but it is also an indication of the increasing complexity of advertising offerings and the advertising value chain – stretching across holding companies, advertising agencies, media agencies and marketing services.

The rise of the global holding companies is a solution to grasp some of the positives of globalisation and convergence, while creating enough scale to serve global company needs effectively.

It has also forced the advertising industry to develop new business models and to go beyond advertising to focus on consumer-centric marketing tactics.

2. What strategic group dimensions and strategic groups can you identify? What are the differences between them?

Strategic groups can be mapped on two-dimensional charts with key dimensions or axes. For example, for the advertising industry, the dimensions: (1) Global reach and (2) Range of specialist services between creative and analytic have been chosen to demonstrate strategic groups in the advertising agency.



Other dimensions could be: (1) Range of industry expertise (pharma, retail, auto, fmcg) (2) Reputation for advertising effectiveness.

The dimensions in the chart have been chosen because they are characteristics that are shared by the top performers and specialist companies emerging in the advertising industry. These dimensions also show differences between the strategic groups as follows:

The large global multi-company holding companies such as WPP, Omnicom, Publicis and Interpublic offer a wide range of creative advertising services over a large global footprint. Traditionally they have relied on a reputation for creatively effective advertising (as evidenced by winning creative awards) but are losing a significant share of advertising budgets to agencies and consultancies specializing in data analytical, consumer targeting services, shown in the middle right and bottom left of the chart. Where they have the financial resources, their response has been to make acquisitions in this space.

Mid-sized agencies often cannot compete on range of services, acquisitions or global footprint so have to look for their competitive advantage through creative reputation and/or quality of service.

The strategic group concept is useful in three ways:

Understanding competition – the company can focus on its direct competitors, that is, those within its particular strategic group.

Analysis of strategic opportunities – it enables the identification of the most attractive strategic spaces. Can the company take advantage of another strategic space? For example, would Google wish to compete with the technology consultancies like IBMiX, who in turn are trying to compete with the multi-company advertising agencies like WPP by offering creative services? As mentioned earlier, WPP and other agencies in the top 5 have made acquisitions at the analytical end of the dimension in order to acquire specialist knowledge.

Understanding and analysing mobility barriers – obstacles to moving from one strategic group to another. These are equivalent to the five forces barriers to entry. In the chart, it might be more advantageous for a specialist digital agency to expand its global reach than expand into creative media advertising and compete with ‘boutique’ advertising agencies or the mid-sized agencies.

3. What PESTEL factors are driving changes in the industry? What are the main threats or opportunities that arise from the factors below?

PESTEL ANALYSIS

ISSUE	IMPACT ON BUSINESS
POLITICAL Rise of consumerism in China and Africa Potential change of governments in key markets At a regional or an individual country level, legislation/regulation regarding what can and cannot be claimed in advertising and at what level personal data can be used for advertising.	Positive impact on the advertising industry Spending on advertising traditionally goes up in periods running up to elections Both positive and negative – an understanding of countries/regions that are ‘liberalising’ and encouraging consumerism and those that are not
ECONOMIC Potential trade war between US and China – disruptive to brands and agencies. Recession in key markets directly affecting advertising budgets. Inflation having an impact on consumer spending	Potential negative effect of exclusion from major markets and knock-on budget cut-backs Negative effect of budget cut-backs Negative effect on personal disposable income and therefore spending on consumer goods
SOCIAL / CULTURAL Shifting demographics as western world population growth slows and major population increases in developing countries, where for example, 50% of the population is under the age of 25. Transition in society from digital immigrants to digital natives who have been interacting	Potential negative as western Europe stagnates. Potential positive if the company can take advantage of the growth markets. Potential negative as advertising agencies have to learn and adapt to producing a different form of advertising.

with computers, video games, smartphones and social media since childhood The rise of 'direct action pressure groups' especially to do with the environment, for example, movements such as Extinction Rebellion	Direct effect on changing laws which impact on manufacturing and consumer behaviour.
TECHNOLOGICAL Widening range and sophistication of electronic media and video channels to reach consumers Increasing amount of personal data (big data) on consumer preferences and behaviour being collected and analysed The rise of artificial intelligence and programmatic buying of media advertising Penetration of smartphones in developed and developing countries	Potential negative for traditional advertising agencies if they do not invest in the capabilities to take advantage of these developments Potential positive – enables more precision and personalisation of advertising messages Potential positive and negative – represents new system for targeting consumers precisely and swiftly with on-line ads Potential negative for traditional advertising agencies if they do not invest in the capabilities to take advantage of these developments
ENVIRONMENTAL Climate change and worldwide initiatives (UN and individual countries) and legislation which impacts on energy efficiency, cars, travel and food production UN's environmental guidelines affecting manufacturing companies in automotive and fmcg Rising awareness among consumers of environmental issues with regard to sustainable production of food and other consumer items Impact on the environment of production processes and packaging including plastics Awareness of personal travel and personal carbon footprint.	Opportunity for advertising agencies to work with clients to develop their environmental profile Promote themselves and their products as ethically and environmentally responsible, for example, refillable container movement

LEGAL / LEGISLATION At a regional or a national level, legislation regarding what brands can and cannot be advertised What can and cannot be claimed in advertising and how genders are portrayed What personal data can be used for targeted advertising	 Depending on region/country, there could be positive or negative impact on what brands can be advertised, for example, cigarettes and alcohol. Also, some countries have laws about how gender is portrayed in advertisements. Some countries or regions may be more or less attractive as a consequence. The use of personal data is also controlled in some countries.
---	--

NOTE:

It is worth reminding students that the advertising industry is a B2B industry, that is, the customers or clients of advertising agencies are other companies, for example, retail, manufacturing, service/media companies, as well as governments and charities. While advertising agencies produce advertisements seen by consumers, their customers are not consumers, they are companies.

THE ‘SO WHAT’ QUESTION

After completing a Five Forces and PESTEL, the important question is: so what? How do the identified factors impact negatively or positively on the industry? At a strategic level, what action should be taken?