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HEADQUARTER-SUBSIDIARIES RELATIONSHIP:
SCHOLZ & FRIENDS CASE

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INTRODUCTION

The basic purpose of this thesis is the one of investigating on how parent companies coordinate and control the activities of their subsidiaries. This is mainly aimed at understanding how headquarter-subsidiary relationship are managed, which ones are the process and procedures of coordination and control behind it. Thus to better understand how these theoretical relationships apply to the reality, this thesis is going to analyze the case of the company 'Scholz and Friends', and so how the headquarter-subsidiaries relationships develop in the field of the advertising agencies. In a more general way, this work addresses to three different aspects.

How are headquarter-subsidiary relationships managed? In order to understand this, this thesis develops by making a deep analysis considering different factors. First of all, it deals with the environmental and strategic elements affecting this relationship and influencing the needs and requirements for coordination of the subsidiaries. Particularly importance is given, in this case, to the **contingency theory**: the theory stating that in organizing a corporation, leading a company or making decisions, all of the actions should be contingent upon internal and external situation. This means that different variables, like for example the size of the subsidiaries, have been taken into account for the analysis of this relationship behavior. Starting from this, this work aims at better understanding the management of this relationship by analyzing all of the different management theories and the different solutions adopted over the years to facilitate the coordination and control among headquarters and subsidiaries. Parent companies do adopt different way and degrees of control. Specifically, the difference between associates, subsidiaries and affiliates is underlined by paying attention to the different percentage of control owned by the holding company and so the consequent control over them.

What about advertising agencies? Because of the choice of using as example of practical representation of the headquarter – subsidiaries relationship the advertising agency Scholz & Friends, an insight about the advertising world is provided.

For this reason, the advertising world and, specifically, the advertising agencies represents the second argument taken into account by this work. In order to understand this world and the internal processes of an advertising agency, there are some aspects that should be considered. First of all, it is important to underline the difference between the advertising and the marketing agencies. The two of them are too often confused, but their job actually relies on different approaches: while a marketing agency uses a broader approach, the advertising uses a much more specialized one. This is one of the most important differences to be stressed in the world of the advertising. Beyond a broader and more general view of the advertising agency, this work also provides a deep analysis of the internal structure. This part allows to understand how the agency decides to share responsibilities and assign tasks internally with the aim of providing the best final outcome possible. Advertising agencies have been subject to several changes both internally and in their way of operating; for this reason this thesis also analyzes its trends by paying attention to the modifications introduced in the advertising field and the consequent increase or decrease in the financial results.

What about Scholz & Friends? It is much easier to understand the theoretical concepts if there is a practical example supporting them. For this reason this work explains the relationship between headquarter and subsidiaries by analyzing in details the Scholz & Friends case. This agency is famous for having a background of acquisitions that made it headquarter of several different agencies and subsidiaries of larger organizations. Scholz & Friends has seen itself becoming subsidiary of many bigger agencies; one of the most remarkable one is represented by the last acquisition made by WPP. On the other side, it also increased its portfolio by acquiring other little agencies that contributed at increasing its range of capabilities, letting it improve and conquer more and more shares of the market. How did these acquisitions influence the agency final outcome? This is what this thesis wants to show through this case. In explaining a real situation, it deeply analyzes the relationship between the parent company and its subsidiaries and the internal and external changes arising from it.

1. HEADQUARTER-SUBSIDIARY RELATIONSHIPS

1.1 Environmental and strategic context

Headquarters – subsidiary relationship represents one of the most important topics for what concerns a business. It shows how company works, delegate or share their own tasks and responsibilities. This is the primary conduit through which HQ is able to manage the corporation. It helps in facilitating inter-unit product, personnel and knowledge flows. Through this relationship the transfer of MNC's ownership is facilitated and it allows the design and implementation of more efficient corporate and subsidiary structures, control mechanisms and knowledge and innovation coordination systems. (Johnson 2005). Before analyzing this, it is important to get some basic ideas with respect to the two main actors of this relationship: Headquarter and Subsidiary.

Headquarters (HQ) is where the most important functions of an organization take place. It might also be called 'corporate headquarter' and stands for the main entity taking all the responsibilities for managing the business such as: tax, legal, marketing, finance etc. It also represents the location in which the CEO and his staff, known as CEO office, work. This is otherwise called 'parent' or 'holding company'. A *subsidiary* is a company completely or partly owned by another corporation by owning more than half of its stock. The subsidiary can be a company, corporation or limited liability company. It's not said that it has to be owned by another corporation, sometimes it might also be a government or state-owned enterprise. Subsidiaries represent a significant aspect of the business and almost all the multinational corporations (MNCs) organize their operations in this way.

Once having understood the connection between headquarters and subsidiaries it might be useful to understand and underline those external factors that shape and characterize the relationship between these two actors.

Those are mainly environmental and strategic ones: regarding the competitive environment or the major characteristics of growth strategies.

The outside environment can be seen both as 'constraints' and 'opportunities' influencing the organizations' internal processes and decisions (Lawrence and Lorsch, 1967:187). According to Volberda (1992) *flexibility* should be considered as an important factor; since an organization should always keep on eye on the external environment and flexibility allows the organization to keep a fit between it and the internal processes.

Environmental and strategic factors are those that directly or indirectly influence the way of coordinate and control of a parent company and its subsidiaries and so they represent the context in which the headquarter-subsidiary relationships develop. It is important to make a deep analysis to understand by what are HQ-subsidiaries relationships determined and how do they change in their own context.

Relationships between organizational structure and external environment are usually regulated by the 'contingency theory'. This theory is said to be contingent because it analyzes organizations' behaviors under different conditions, above all, the business environment. Lawrence and Lorsch (1967) were the first one introducing a contingency theory; a contingency model for MNCs includes several different factors such as: the *size* of the organization, the *magnitude* of international operations in the MNCs, *product diversity* and *diversification strategy*, *industry* and *customer structure*, and the *competitive environment* in which the MNCs operate.

Surely, the internal patterns of an organization are strictly related to the external conditions (Donaldson, 1990). For this reason it is important to show how environmental and strategic factors might shape a relationship between the 'parent company' and its subsidiary.

First of all, contingency factors might have consequences on the *degree of centralization* chosen by HQs in their decision-making authority (Picard, 1977; Goehle, 1980; Hedlund, 1981; Garnier, 1982; Gates and Egelhoff, 1986).

In terms of *subsidiary size,* results differ according to whether single or multiple contingency elements are considered at time. This means that relationship between an organization and the contingency elements changes according to the number of these elements analyzed.

For example, taking into account resources as subsidiaries' variable and introducing another variable such as the size of the subsidiary, Ghoshal and Nohria (1989, 1994) obtained different results according to whether their subsidiaries were large or small. The centralization was negatively correlated to the environmental complexity (local competition and technological dynamism) in the case of small subsidiaries, but the situation was, instead, different for what concerned large subsidiaries.

In a study of domestic firms, Miller (1983) also found that centralization is correlated positively with innovation in small firms pursuing a stable task, while the same relationship was negative in high-technology developing firms. In short, relationships must be examined given their specific context because associations among variables are largely a function of the context in which they occur (Van de Van and Drazin, 1985; Miller, 1986; Meyer, Tsui and Hinings, 1993).

The *size* of the organization is positively correlated with the degree of organizational complexity and formalization. Complexity is then defined in terms such as the number of hierarchical levels, and the degree of horizontal differentiation. (Headquarter-subsidiary relationships in multinational corporations - Laurent Leskell). Size can be, in a more common way, defined as the number of employees, the invoice sales or the assets of a firm. To understand its consequences on the relationship between headquarter and subsidiaries, it is important before to understand its role and its importance in the evaluation of a firm. For example, according to the size higher or lower importance is given to the intra-organizational communication and control mechanisms. (Katz and Kahn -1978).

If size is considered as one of the fundamental determinants of an organization structure, it can be argued that relatively large attention should be paid to the use of formal and standardized procedures to control subsidiaries.

Even though, it is said that the bigger the size, the higher is the attention paid by parent company to the use of formalization, this is actually a wrong statement. A large organization does not necessarily have to rely upon formalized control mechanism; or in other words it does not need to turn to formalization if there are other control mechanisms. However, a large size indicates the organizational complexity of the firms.

We can conclude that even if the size of the organization is not really a very explanatory factor, it still provides an indication of the needs and problems involved in the control and coordination of the subsidiaries. In fact larger MNCs, in terms of sales, assets, employees and any other measures, are faced with more complex control and coordination requirements than are comparatively smaller MNCs.

Magnitude of international operations is another significant strategic factor affecting HQ-subsidiaries relationships that should be taken into account. Among several different MNCs all with the same experience of international operations, almost all of them have more than half of their employees working outside their home country.

In understanding the relationship between the HQ and subsidiaries both the magnitude of international operations and the international experience should be considered. In fact, even though there are scarce evidences that the international experience has a real effect on this relationships; it seems like that greater international experience may be related to less subsidiary autonomy.

Most studies made during 70s have focused on the effect of international experience on subsidiary autonomy in specific areas. Piccard (1978) found that headquarters, in more international experienced MNCs, were more involved in marketing decisions of their foreign subsidiaries, so subsidiaries had lower autonomy. Studies carried on by Robbins and Stobaugh (1973) found instead the opposite situation for what concerns financial decisions in the foreign subsidiaries of US MNCs.

The third factor to be considered is the *degree of product diversity*. If one single product or group activity accounts for more than 50 % of annual sales, then the

degree of diversification is low. Contrarily, if only 25-50% of the total sales revenues can be achieved through a single product group or activity accounts, then we have a medium degree of diversification. Finally if the activities are spread and the percentage of the revenues collected by a single one is lower than 25% of total sales, in that case, the degree of product diversification is high. Contrary to the concept of product diversity, there is a firm's ***diversification strategy.*** In this case the degree of diversification among different product lines relies on how different MNC's resources and skills used when diversifying into new activities.

Industry structure, customer and competitive environment represent the last factors shaping the context in which HQ-subsidiary relationships develop.

For what concerns the ***industry structure***, there exist several different structures. Mostly, companies are best characterized as *international oligopolies*. This happens, mainly, for their major product lines. Minor lines, instead, tend to compete in *fragmented industries*.

Even though ***competition*** is global, it is important to identify the major competitors within the market. Usually, this research closes within a number of firms ranging from three to five whose market power is similar to the one of the company taken into account. Moreover, most of the time, the base for these firms is in international and highly industrialized countries, such as Japan, Germany, and the United States. Those industries that are less concentrated have relatively less competitors, which are usually represented by local companies. Industry structure and competition are strictly related. The global spread of MNCs in oligopolistic market structures is dependent on the market presence of its competitors. (Knickerbocker, 1973).

The ***customer structure*** in the MNCs is the last characteristic to be analyzed. It relies upon two important factors: the number and the type of customers. The two of them are strictly related; in fact the number of consumers defines the type of customers that is going to be served. If the customer base is high, firms do prefer to engage into system sales with respect to single products. Consequently, this means that firms are more willing to sell primarily to public customers.

Customer concentration is a significant factor also because the higher it is, the more important is the relationship developed with **each** of the customers. As a matter of fact, each customer is important since if he has already bought from the firm once, whether he is satisfied he will buy twice or will promote the product to other potential customers. This, of course, requires a strong need to coordinate and control subsidiary marketing efforts, price levels and product specifications and implies a relative high bargaining power of the customers versus the sellers. Sellers need, then, to accommodate with customers' demand much more than if the customer base was fragmented.

These environmental variables, especially competition, do impact on the HQ-subsidiary relationship, mainly increasing the need of control and coordination of the headquarters towards their subsidiary. Intense competitive environment lead to a decentralization of decision-making, which becomes necessary to the firms to be responsive and to react quickly to changes in competition. It is important to remark that decentralization does not mean avoiding coordination and control.

In a multinational context, even though subsidiaries are provided with the responsibility and the possibility to make decisions within their organizational domain, the headquarters still need to coordinate and control the market by imposing some limits. This high-level control is mainly required whenever the performance of a single subsidiary might also affect the one of other subsidiaries or the MNC as a whole. Central control of a specific market might also be necessary in the case in which there is one single market strongly affecting a company performance.

The need for coordination and control towards subsidiaries may vary a lot, also leading to changes in the control requirements. For example, fragmented market lead to less interdependence requirements both between and within countries. Consequently, firms face with lower needs for central coordination and control and so with less complex instruments for subsidiary coordination and control.

There may exist some situations in which MNCs face the problem to combine both the need to decentralize marketing decisions and the one of making the parent company coordinate and guide the activities.

This is particularly the case of those firms willing to protect brand name loyalty. In this case central coordination and control may help to achieve and sustain a standardized market approach among the subsidiaries. Oligopolistic market structures, intense competitive rivalry and high bargaining power of customers are important factors behind these simultaneous and conflicting needs.

1.2 Management HQ-Subsidiary Relationship

Large multinational corporations (MNCs) increased the curiosity of researchers. This MNC phenomenon is extremely simple but its implications are far reaching. First of all, a distinctive feature is its large number of subsidiaries. They are remarkably significant both because of their ability to sell firm's product internationally and because of their value-added activities such as R&D or manufacturing.

One of the core issues in the study of multinational corporations (MNCs) is how to structure and manage the relationship between the headquarters and its subsidiaries. Different studies helped in trying to understand the effect of HQ control on subsidiary performance. There exist several different schools of thought for what concerns the management of HQ-subsidiary relationship.

Some of them stated that centralized HQ control was the best solution bringing as a motivation the transaction cost theory. (Mjoen and Tallman, 1997; Ding, 1997; Yan, 2000; Calantone and Zhao, 2000; Yan and Gray, 2001; Luo et al. 2001). Some others instead did support the decentralized control model. Beamish (1985) argument in favor of the decentralization of control relies on the fact that because of the higher degree of autonomy they're provided with, subsidiaries might be more incentivized to capture all the possible advantages of the local country in which they operate leading to an increase of the parent's firm-specific advantages.

At the beginning of their rise MNCs (Headquarters) had the tendency to manage all the different businesses (Subsidiaries) in the same manner. By the time it was understood that this system only created disadvantages, solutions for this need of managing subsidiaries differentially arose.

Prahland and Doz were the first who developed a new way of managing subsidiaries through their 'ideal management principles of an MNC' (1987). Subsidiary's operations must be controlled and coordinated by headquarters leading to different typologies and strategies. When control and coordination is in headquarters' hands, they develop a *globally integrated strategy*.

Subsidiaries, whose local responsiveness demands for a higher level of autonomy, develop a *responsive strategy*. Those under the moderate level of pressure for global integration and for local responsiveness simultaneously belong to the group of *multifocal strategy.*

Summarizing Prahland and Doz's thoughts, it is possible to understand a few things. First of all, because of the higher control imposed by the headquarters, centralization represents an advantage for those subsidiaries adopting a globally integrated strategy. Second the higher the correlation between subsidiary strategy and the level of centralization, the greater the performance.

Bartlett and Ghoshal (1989), following Prahalad and Doz thoughts (1987), argued that local responsiveness and global integration can be achieved simultaneously, and developed a typology based on a matrix of four strategies: *international, multi-domestic, global and transnational.*

Their school of thoughts was called the 'process school' and it argued that the organizational issues take more importance than the structural ones. Management of the MNCs consists in balancing the pressures for **global integration**: coordination of subsidiary activities across countries to build an efficient operations network and take maximum advantage of similarities across nations, and those for **local responsiveness**: the attempt to respond to specific local needs within a variety of host countries. This means that organization do focus both on how to develop internationally and on how to handle the local business.

Ghoshal and Bartlett (1995) suggested to emphasize this by creating a purpose-process system. The model they developed was also called the *I-R model (Integration – responsiveness)*. They created a matrix that uses low and high levels of these pressures, to hypothesize four different possible strategies and following implications on HQ-subsidiary relations.

		Weak	Strong
Pressures for Global Integration	Strong	Global *Global* Global	Transnational *Transnational* Matrixed
	Weak	International *Export* International Division	Multinational *Multidomestic* Federal

Weak   Strong

Pressures for Local Responsiveness

- When *global integration* and *responsiveness pressures* are *both low*, the ***international strategy*** is the best option. It is based on home country expertise. HQs create some standard products produced and marketed locally and retain all the critical functions such as the majority of the value chain and control of technologies. The development of knowledge and innovation will stream from the home organization to the subsidiaries, which tend to go overseas as units in a coordinated federation.

- When pressure for *local responsiveness* is *high* and the one for *global integration* is *low,* organizations do prefer to use a ***multinational strategy***. This strategy is based on responsiveness to local market demands. This means that marketing and product development strategies are created appositely for the local demand. In this case, headquarters retain control of the key financial indices.

- When pressure for *local responsiveness* is *low* and the one for *global integration* is *high,* organizations do prefer to use a ***global strategy***. In this case the strategy is based, for the most, on the economies of scale. Headquarters maintain control of decision-making and knowledge, while the subsidiaries of the MNC are tied to the home organization through their dependence on their resources and know-how. They also are charged to diffuse innovation already developed at home.

- When pressure for *local responsiveness* is *high* and the one for *global integration* is *high,* organizations do prefer to use a ***transnational strategy.*** This strategy aims at maximizing both responsiveness and integration. The MNC is considered as a network, and each subsidiary is provided with responsibilities according to its capabilities and strategic mission.

Bartlett and Ghoshal (1989, 1990) also developed another method: a two-dimensional matrix; on one side stressing the *strategic importance* of the subsidiary, and on the other one subsidiary's *local resources and capabilities*. Four different strategic roles arose from this matrix.

A subsidiary is a *strategic leader* if it is high both in its strategic importance and in its local resources and capabilities. The one, instead, low in both factors is considered as an *implementer*. Different are the roles taken by those having only one element high or low. If they have a limited strategic importance but high local competencies, subsidiaries are also called *contributor*; if instead it is the contrary they are, in this case, *black holes*. The level of autonomy of subsidiaries is also related to Prahland and Doz variables. Those whose pressure of global integration is high have low level of autonomy; those, which instead do face a limited global integration, have higher autonomy.

In managing HQs-subsidiary relationship it is important to take into account every single aspect of the organization, not only how to manage tasks and strategies but also those resources building the competitive advantage such as competencies, capabilities and knowledge.

An element to be considered in shaping the way in which these relationships are managed is ***knowledge.*** It is important for a MNC that its subsidiaries do transfer their knowledge to the headquarters. **Gupta and Govindarajan** (1991) developed a management typology which deals with ***knowledge*** transfer between subsidiaries and headquarters focusing mainly on the amount of knowledge inflow and outflow. Also in this case four different roles can be assigned to subsidiaries. The first one, in the case of high outflow and low inflow, is that of *global innovator*. In the opposite way, subsidiary is considered an *implementer*. Dealing with the extremes instead, we have

that a subsidiary is an *integrated player* if both our factors are high and a *local innovator* if they're both low. Responsibilities given to subsidiaries differ according to the dimensions analyzed. Whether knowledge outflow is high, this means if subsidiaries did create knowledge for other subsidiaries, then their autonomy level is high. If instead they rarely create knowledge but, on the contrary, they acquire it from the parent company the autonomy level is low.

Competencies is another important factor to analyze thus to better understand how the management of this relationship occurs. Several different researches stressed out the importance of transferring competencies developed from different geographically dispersed subsidiaries across corporate units. Development of these competencies by subsidiary is related to their *absorptive capacity*: 'their ability to recognize the value of new and external knowledge, assimilate it, and apply it to commercial ends' (Cohen and Levinthal 1990).

Thus to do that, firms need to be part of a network where knowledge and resources are exchanged. In this way, subsidiaries can enjoy of a double-effect. On one side they absorb knowledge from local organizations, on the other one they can exploit it as basis for further knowledge development. For what concerns the corporate management point of view, the HQ one, it is fundamental for headquarters to distribute the competencies developed by subsidiaries.

Absorptive capacity has a significant importance as the foundation of the competencies development of the whole MNC. It represents, furthermore, an important step in building and managing the relationship between the HQ and its subsidiaries. The higher the subsidiary's absorptive capacity, the more extensive is its competence development and consequently the one of the whole MNC. However, even though this absorptive capacity is necessary, it is not enough for the development of competencies in the whole MNC.

The relationship between headquarters and subsidiaries can be also described as a principal-agent relationship. HQs (principal) are those mainly interested in subsidiaries (agent) with unique *capabilities* to contribute to the competence development of other MNCs units.

Since knowledge is acquired by subsidiaries directly, they are the one controlling it so this means that the higher is the absorption, the higher is the asymmetry of information arising with the headquarter. Because of this knowledge monopoly, subsidiaries surely retain the bargaining power and transferring this knowledge would mean to give up on part of this power. This is why subsidiaries need to feel motivated and whether they transfer or not their acquired knowledge depends on how good are headquarters to motivate them and on the time frame.

For this reason talking in terms of principal-agent relationship, 'the principal' must work on this, focusing on controlling and coordinating subsidiaries' activities. Several different mechanisms are developed by headquarters to solve these principal-agent problems; solutions that shape the way of managing the relationship between these two.

First of all, they might decide to use subsidiaries' competencies providing them with more responsibilities. They are so charged of carrying on activities not only in the local environment, but also for other unit's operation. In this way, subsidiaries will be judged also according to the results of the other units' operations, incentivizing them to perform better and to contribute to the development of other corporate competencies. Assigning more responsibilities to subsidiaries translates into an **outcome-oriented control strategy** (Eisenhardt, 1989).

Second, a subsidiary's absorptive capacity is positively related to headquarters' attention (Eisenhardt, 1989). This means that the principal should monitor their subsidiaries thus to induce them to act in their best interest. This because the more they spend time on them, the better they will understand them and the knowledge they captured from the environment.

Third they might use **behavioral control strategies** (Eisenhardt, 1989). In this case, headquarters tend to bring in the subsidiaries some foreigners. This happens for two reasons: first of all foreigners are more willing to act in the best interest of the principal, second they are less involved with the subsidiaries so they might be less focused on the subsidiary perspective when making decision and instead more on the final corporate result.

Talking about management of this relationship, also the presence of overseas subsidiaries has a further impact on it. Some MNCs might decide to establish their subsidiaries in foreign countries; they have one or more geographically dispersed subsidiaries, each one of them depends on local distributors serving their markets. Managing these relationships with distributor is complicated but quite important as well since an efficient coordination of foreign distributors significantly impact MNC outcomes.

The headquarter-subsidiary relationship also plays a significant role for what concerns the subsidiary's ability to manage foreign distributors. Usually headquarters are located in the home market whereas subsidiaries in the foreign ones. Since subsidiaries are those relating with distributors; if there are some disagreements between MNC and subsidiaries it might happen that distributors do receive conflicting messages for what concerns MNC's goals and priorities risking in this way their goal clarity.

New processes of internationalization change management relationships between the headquarters and subsidiaries. Subsidiaries' degree of dependence from their HQ differs according to the context. In some cases they have higher dependence and try to adapt products coming from the parent company to the local market, in some others instead they are much more autonomous carrying on operations according to their own competences thus to make headquarters outcomes less related to subsidiaries' ones.

Managing HQ-subsidiaries relationships is not simple. They can be modeled as a 'mixed motive dyad' in which the interests and perceptions of the two parties are frequently not aligned with one another (Ghoshal & Nohria, 1989). Subsidiaries and headquarters' mindsets and their opinions are completely different. On one side subsidiaries ask for autonomy, on the other one headquarter push for control. While subsidiary try to act in the best interests of the local business, headquarters focus on the global profitability of the MNCs.

Doz and Prahalad (1984) argued that tensions between the headquarters and subsidiary might also arise because of conflicting environmental demands not well balanced. In other words if a distinctive structural implication is required and at the

same time subsidiaries face a strong pressure both for global integration and local responsiveness there is a high possibility that these tensions come up.

1.3 HQ Control: Subsidiaries, Associates or Affiliates?

No matter how different they are from each other, the common factor of all of the businesses is that in order to grow all of them need to diversify. This might happen in different ways: by expanding into new markets or by trying to attract a larger group of customers. One way businesses grow is, surely, by creating and acquiring subsidiaries.

There exist different ways in which a subsidiary can be created. According to how they begin their own life, subsidiaries are provided with different levels of autonomy. They might either sell their own products and be independent in their day-to-day decisions or just follow their holding company's indications in order to serve them. One of the most important differences to explain is the one between the terms 'affiliate', 'subsidiary' and 'associate'. Even though these words might be confused and people might use them interchangeably, they refer to slightly different concepts. They share only one feature: All of them are measurements of ownership that a main company holds over other smaller companies (*Differences between affiliates and subsidiaries, DifferenceBetween.net, 2011*).

Whenever we talk about ***affiliate*** we refer to one company whose stock is owned by less than 50 percent by the parent company. In this case, the parent one has a sort of relationship with a smaller company and is said to have a minority control over it; this means that the affiliate company is related but not strictly controlled by it. By owning a 49% of shares, rather that a 51% the business holding the minority has little voice for what concerns daily operations of the affiliate, but still has influence on any major decisions made by the company.

Usually, affiliates are created when companies try to enter into an international market and to gain a position there. Affiliate might arise also because of other reasons such as to avoid restrictive laws on foreign ownership to bring in customers through different marketing techniques. This is known as '**affiliate marketing**' (*Difference between subsidiary and affiliate, DifferenceBetween.info*).

The definition of "affiliated company" will vary, depending on the context in which the term is used. It's not said that an affiliate company is the one that is directly under the main company's control, but it might also happen that a partner company decides to share its stocks with the main one and become an affiliate. Affiliate is a term that refers to those companies whose business operations are connected to each other; this means not only those owned in a minority part by the company but also two companies being subsidiaries of the same parent. (*What is an affiliated company? – WiseGeek*).

In this case, affiliates might also be called '**sister companies'**. It consists of two businesses owned by the same parent company whose connection allow both of them to interact on projects of common interest such as launching joint marketing campaigns, or sharing resources and to share employees and facilities. For example, two fast food restaurants that are owned by the same parent may choose to co-locate in the same building, thus attracting a higher number of consumers because of the wider selection of food items they can enjoy at the single location.

An affiliate may also be conceived as a business that has entered into a partnership with another company with the aim of combining some resources to increase the market share. Companies pairing a cola with a small packet of peanuts represent an example. In this case they carry on a combined promotion of these products and they are sold together. Since this kind of relation might be ended at any time, in this case the affiliated company is governed by a contract establishing all the procedures and the policies to be respected. (*What is an affiliated company? – WiseGeek*).

A '*subsidiary*', on the other side, can also be referred to as a daughter company or wholly (partially) owned subsidiary. The control of a holding company over its subsidiary is achieved, most of the times, through the ownership of shares in the subsidiary.

These provide the parent with the power necessary to determine the composition of the board of the subsidiary, and so exercise control. A subsidiary differs from an affiliate since in this case the parent company owns more than 50% of another

company; this means it controls the major share of the stock of the company.

We refer to a wholly owned subsidiary, in the case in which it owns all 100% voting shares.

It is important to have a clear idea of how the parent company and the subsidiary do work in carrying on the business. First of all, it is not necessary to operate in the same locations or in the same business, but surely it is not possible for them to be competitors. Subsidiaries can carry on operations either related to those of the Mother Company or completely different from those ones such as, for example, cars manufacturing parent company whose subsidiaries have a cellular phone manufacturing entity (Grace's diary, Difference between an affiliate, associate and subsidiary companies including a division and a group, 2013).

Whenever we talk about parent company's 'control' over subsidiaries we refer both to practical and theoretical control. For what concerns the *practical*, we refer to 'control over the composition' of another body's board, while *theoretical* control mainly deals with the ability to obtain more than half of votes at a general meeting. Dealing with larger structures, control might also be intended in terms of hierarchy. "First-tier subsidiary", "second-tier subsidiary", "third-tier subsidiary" are names often used to describe all of the different levels of existing subsidiaries.

A significant example of this hierarchy is represented by the ownership structure of the British company Ford Component Sales, which sells Ford components to specialist car manufacturers:

"1. Ford Motor Company - the ultimate US parent company in Dearborn, Michigan
2. Ford International Capital LLC - *first-tier subsidiary* (a US holding company located in Dearborn, Mi, but registered in Delaware
3. Blue Oval Holdings - *second-tier subsidiary* (a British holding company, located at the Ford UK head office in Brentwood, Essex with five employees)
4. Ford Motor Company Limited - *third-tier subsidiary* (the main British Ford company, with head office in Brentwood, with 10,500 employees)
5. Ford Component Sales Limited - *fourth-tier subsidiary* (small British

> specialist component sales company at the UK Ford head office, with some
> 30 employees)"

(Grace's diary, Difference between an affiliate, associate and subsidiary companies including a division and a group, 2013).

Each subsidiary is an independent company. It can be considered as a spin-off of the parent company, but it is still owned by it or by another subsidiary in the hierarchy. An example is YouTube video service; it is a subsidiary of Google because it remains operated as YouTube, LLC, but it is a separate business entity even though Google owns it (Grace's diary, Difference between an affiliate, associate and subsidiary companies including a division and a group, 2013)

Since subsidiaries are independent entity also for what concerns taxation, regulation and liability they differ from the divisions of a company, which instead are not legally distinct from the company itself. In fact, taxation and regulation problems of a subsidiary do not affect the parent company. They are independent from each other; this means that if a subsidiary is facing some financial problems, it's not said that the holding company will face them as well. Because of this independence they can sue and be sued separately from its parent and its obligations will not normally be the obligations of its parent.

If a parent company owns a foreign subsidiary, the subsidiary must follow the laws of the country where it operates, while the parent company only has to show the subsidiary's financial on its account books. (*Difference between subsidiary and affiliate, DifferenceBetween.info*)

Subsidiaries, as affiliates, are mostly used when a company wants to penetrate a new or an international market without using its own name. Companies might decide to use it also if they want to enter into a new segment when they have only little or no knowledge. It can be so seen that, as for the affiliates, subsidiaries are used for several different scopes. Differently from the affiliates, they are more costly to a parent. This higher cost is compensated by higher power acquired by the parent company in the voting rights and in the decision making process (*Difference between subsidiary and affiliate, DifferenceBetween.info*).

Subsidiaries have both benefits and challenges. For what concerns the benefits, they are usually preferred because, thanks to their smaller size, they allow parent companies to have some tax breaks. Challenges instead are faced in retaining control of the subsidiaries. Even though parent company do own them, they are not involved in daily decision-making processes.

There might exist a relationship between affiliates and subsidiaries; in fact affiliates may also possess subsidiary companies in which they control a majority, or a hundred percent of stocks. The existence of 'subsidiaries' and 'affiliates' is strictly related to multinational needs of entering into new markets without having to use their name since they are not well perceived, or in the case of affiliates, a major share of their stocks. Because of this subsidiaries and affiliate companies have been named '*dummy companies*'.

Similar to an 'affiliate' is the '***associate***'. According to the International Accounting Standard 28 (IAS 28) an associate is defined as "an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture."

This significant influence can be seen in the fact that parent company do have the power to participate in decision making of financial and operation policies, but they do not have control over their associate companies. This significant influence is lost when the parent company is discharged by its power to participate in the financial and operating policy decisions of the investee. [IAS 28(2011).9]This because, they only own a limited range of share: 20–50%.

This represents the main difference between associate and affiliate. Parent companies might have a significant influence over an entity in different ways such as: participation in the policy-making process, including participation in decisions about dividends or other distributions or interchange of managerial personnel [IAS 28(2011).6]

While under an accounting point of view, subsidiaries and affiliates' financial statements are consolidated into the parent one, associate companies differ from the previous two since their financial statements are not fully consolidated.

A consolidated financial statement consists of the combination of a parent company financial statement and the one of its subsidiary.

In the case of the associate, associate value is reported in the balance sheet as an asset, the investor's proportional share of the associate's income is reported in the income statement and dividends from the ownership decrease the value on the balance sheet. (*Wikipedia, associate company*).

Associates can be seen as 'employees' of the parent paid through a salary and to whom it may be offered the opportunity to become a partner at a future point in time according to its job performance or hours billed. (*What is the difference between an associate and a partner?, WiseGeek*)

To make clearer these three different concepts, an example summarizing the three of them is provided:

"Walt Disney Corporation has an eighty-percent stake on ESPN, forty-percent stake on History Channel, and complete ownership of stocks of the Disney Channel. In this example, Walt Disney has stakes over three smaller companies, thus enabling the categorization of these companies either as subsidiary or affiliate. History channel would be categorized as an *affiliate/associate*, because Walt Disney Corporation only has a partial, or 40% control of its stocks. However, ESPN can be said to be a *subsidiary* of Walt Disney Corporation, since the main company controls majority of its stocks. Lastly, the Disney Channel can be branded as a *wholly owned subsidiary*, since Walt Disney Corporation owns a 100% of its stocks'

2. ADVERTISING AGENCIES: MARKET ANALYSIS

2.1 Advertising Agencies vs. Marketing Agencies

It is common to notice that several people share a popular belief that marketing and advertising is the same thing. Even though both of them are very significant for a firm, they are very different and knowing these differences might represent a first step in a company's growth. In fact, business owners who are looking to increase revenues should choose carefully between these different professional advisors: a marketing agency or advertising agency. Both of them provide solutions that can help grow a business through increased sales; however, their approaches and the results delivered are different.

A *marketing agency* looks at the bigger picture; it offers a broader approach to help develop marketing strategy. It includes procedures such as market research, strategic planning (including brand and product management) and sales and sales management experience. *Ad agencies*, instead, are mainly specialized in communications programs. Even though they also do research to find out how to best reach and persuade the target audience, their primary purpose is to get the message. While a marketing firm is generalists, advertising agencies are the specialists. Over time, these two roles are being blurred since marketing agencies started to provide advertising agency services and vice versa. Before making an analysis of the two, it is important to say that advertising is always marketing but marketing is not advertising.

Marketing is process by which individuals and organizations obtain what they need and want through creating value for customers and building strong customer relationships in order to capture value from customers in return.

A ***marketing agency*** or firm operates simply because a business needs help for marketing. This business goes asking for it to the agency and the agency does the job. Businesses do rely on agencies because for the development of their marketing

process. This because even though they may use some basic techniques such as business intelligence taking advantage of Internet data resources, the work done in the agency is quite different. Marketing agencies both take into account the origins and the personality of a business and focus on the mind and heart of the consumers only to create a strategy that brings both of these entities together in a relationship meant to last that will benefit both of them. The whole process is *customer centered*: focused at finding the best product or service for the final targeted user; client relations are so the primary function of a marketing agency. This, of course, leads firms to play on different strategies to initiate or retain the customer. They need to counsel clients in the best way possible to bring products and services to the market using the most efficient and effective means possible.

In a marketing firm, each person serves a specific role in carrying out the client's marketing.

Public relations executive are charged with planning events, communicating with the press or getting the clients the recognition they deserve. When talking about marketing never underestimate the importance of a good business ethic that represents the basis on which a successful marketing campaign is developed. The **strategists** will put together a strategic campaign of PR by implementing effective, cost-efficient programs to provide a detailed and objective profile of businesses customers and market. They also deal with advertising and any other marketing techniques that may serve the client best. The **creative team** works to design and create graphics such as logos, and it also takes part in planning the campaign. Finally, another important position is the one of the **account manager** that connects everyone in the agency together to make sure the process is up-to-date and effective. All these different steps carried on by all these several different positions represent what marketing really is.

A marketing agency job is not only about managing social media or consumer research, but the thinking behind all of this is what really matters; these firms must ensure that everything fits perfectly with the thinking that was uncovered. What clients of marketing agencies pay for is their expertise, not the tools used to

sell the product to the market. Their job is to tell their clients what they should and should not do when it comes to creative and strategy. They are, indeed, mostly focused on paying attention to strategy development; for this reason if a business needs thinking power to come up with strategies and to create and keep customer relationships, then it should partner with a marketing firm. Good marketing agencies are those paying attention to the end client's needs by helping businesses to run company's operations.

Different agencies specialize in different marketing area; some specialize in digital marketing; some others do prefer to focus mainly on experiential marketing; and others do nothing but direct marketing. *Integrated marketing agencies*, however, are a completely different matter. Selecting and managing different agencies can be difficult and also very expensive; for this reason integrated agencies do represent a significant step forward in the marketing agencies' world. They represent 'places' with marketing solutions able to satisfy all costumers' marketing needs in one single shot. The introduction of these integrated agencies was required because of the rise of digital media. This sudden rise suggests a wide and diverse range of marketing channels among which companies willing to promote their products can choose. Integrated marketing agencies, grouping all of the different services in one single place, save so companies' money and time.

They have the capacity and the resources necessary to implement several different marketing strategies in one single united effort. Of course, in order to do that, companies do require large teams of professionals with different areas of expertise across a wide range of marketing and communications disciplines. These different teams should then cooperate and coordinate to make sure their clients' campaigns are as efficient, coherent and effective as possible. Most integrated agencies offer a combination of all, or some of, different services like for example digital marketing, guerilla marketing and mobile marketing.

Finally, marketing is any type of promotional activity done in a client's interest that is not traditional advertising (print, radio and television). It consists, for example, in the promotional event held by a company aimed at increasing customers' knowledge

of the product or service. Differently from advertising that is more to the point, marketing is subtle. By learning the difference between the two, it becomes much more clear why each has its role.

Advertising agencies represent the 'piece of resistance' of the advertising industry. Since 1980s lots of advertising agencies started developing. While before mid 1980s each individual agency offered several different marketing services to its customers, after that period, they started creating specialized in house department.

At the same time, while the number of individual agencies offering different services increased, ownership of those agencies started being way more concentrated. This deep specialization within the same industry led these agencies to be really specific on certain aspects but they also lack of knowledge on many others. For this reason several merger and acquisitions took place and this brought the advertising industry to be much more concentrated and to create a small group of major agencies that hold or control a large numbers of smaller and separated agencies: Holding companies. Even though independent owner-operated agencies still exist, their presence is much lower than before and, most of all they are really small with respect to the holding companies.

The term advertising agency is a term generally applied to a service based business dedicated to creating, planning, and handling advertising (and sometimes other forms of promotion) for its clients (Wikipedia – Advertising Agency). The advertising agency is an important component of the advertising spectrum second only to the advertiser who is the creator of the entire process. This is the instrument through which advertising is conceived and planned by advertising specialists, working together in a team to provide advisory and creative services to advertisers for planning and preparing advertisements, and to place and check them, on a fee or commission basis. Its services are the single element of the marketing procedure that communicates the word about a firm business, product or services offered. This includes several processes such as the placement of ads in media as direct mail, newspapers and television.

Whenever a firm needs help for the tactical aspects of executing a communication program, a partnership with advertising agencies might be useful.

Traditionally, advertising agencies tend to specialize in the *above-the-line marketing*, the one addressed to the mass-market. This process consists in first figuring out the core idea for a marketing campaign then, in order to create it several different advertising strategies should be used. These traditional agencies work closely with their clients to gather information for their campaign launch thus to start the creative process of actually making and distributing a series of advertisements addressing them to a mass market through the four major different media: television, print, radio and outdoors. The first tool that immediately comes to mind; the one most commonly associated with the traditional advertising agency is the television commercial. However, with the explosion of digital marketing, *the below-the-line* one, the nature of the traditional advertising agency has changed thus to provide their customers excellence both in digital marketing and in the more established mass-market media. There are three kinds of traditional advertising agency

- **Worldwide networks**: BBDO, McCann Erickson or Leo Burnett are examples of agencies belonging to this group. These networks developed primarily to serve multinational client companies such as Ford or Procter & Gamble, who want to provide a coherent marketing message in all the countries in which they operate. All but one of these global networks are now owned by the "big four" holding companies: WPP, Omnicom, Publicis Groupe and Interpublic. Each one of this controls a huge number of several different agency brand around the world; as a result, they are able to offer clients the widest range possible of marketing services allowing its clients to always count on the assistance and cooperation of other similar companies. Holding companies are not too much involved in day-to-day marketing, but by working with its subsidiary businesses they tend to encourage intra-group cooperation and new strategies development.

  Holding companies represent the very top of the advertising pyramid because of their total control over smaller agencies. Until very recently, it was

possible to distinguish middle agencies such as western-owned Havas and Aegis from the top tier companies, but over time they involved in a process of further consolidation. Even though middle-sized holding companies controlled several brands, they were actually limited with respect to the 'big four' ones for several reasons such as the geographic reach or the services offered.

- **Micro-networks**: Also known as multi-hub creative networks, they're a recent invention. Similar in most ways to the major networks, they operate in a smaller way, with perhaps only four or five worldwide offices, mainly in key regional centers. Often they provide a customized service for more demanding multinational clients. Sometimes they're hired by a client to come up with a great idea as the basis for a global marketing campaign, which will then be executed or adapted for local markets by the regional offices of one of the worldwide networks.

- **Stand-alone agencies:** They are independent or owned by one of the major groups and they're operative only in their own country, although they may have links to agencies in other markets. These standalone agencies do not only provide marketing skills such as creative advertising, but their area of interest might go beyond. In this case, usually, we refer to them as *'full-service' agencies*. These agencies deal with every stage of providing advertising service: planning, creating and producing advertisements; they also perform research through their own marketing research department and select the best media. Some other full service agencies also provide non-advertising related services including web site design and public relations.

Another category is instead represented by the smaller more entrepreneurial agencies specialized in out-of-the-ordinary creative concepts such as the creation of branding and advertisements; they're referred to as *creative boutiques*. These agencies are now becoming rare, especially as independent ones.

This mainly because, usually, privately owned independent creative agencies are incorporated by the larger holding companies within three to five years. They are either merged into an existing advertising network such as DDB, McCann etc. to increase the strength of its creative power; or they are left to operate as a standalone brand, but they're backed with the financial security provided by a larger owner.

To understand how advertising agencies work, we are going now to analyze their work from the beginning to the end. Most of these agencies are aimed at creating ongoing partnerships with long-term customers. The process of contacting each new client might start in two different ways: either with selecting people agencies already personally known within the organization that they are willing to target or by attracting new clients. This contacting process may also come from monitoring the news for companies that appear to need an advertising check-up and mail them a letter and the portfolio of the agency work. Most of these agencies do use an inside-out perspective. This is the opposite concept of customer centricity; agencies are much more focused on convincing clients about their already existing services, rather than developing new ones.

For this reason the presentation of the agencies to the potential clients that agreed to meet with them begins with these agency showing previous works that usually includes logos or brochures previously made for other clients; in this way they try to convince and attract the customer to work with them. Also other techniques might be used such as bringing up case studies found in the research to show the type of advertising the agency has used in the past for similar companies.

Once the agency succeeded at committing a client, its main aim becomes the one of assessing its position in the industry by paying attention mainly to the market share, the competitive situation and the recognition level in its target market. The agency also take charge of developing a new campaign by assessing clients' expectations and establishing some deadlines.

The creative part of the agency work begins with the creation of the real components of the campaign such as TV commercials, website pop-up windows or a mixed media combination. Creative team is the one dealing with carrying on all of these tasks. Within this team, there is a hierarchy that should be respected; there are some

tasks that need to be developed on a permanent basis such as the ones of copywriters and graphic designers and others that are instead outsourced when needed like those of videographers and actors.

Thus to make the campaign really work, it is important to make a selection of the media the agency wants to use to release its ads; mainly to avoid to bombard people using every kind of media. For this reason, the ad agency decides to buy space for the ads and alternate the media platform. Even though too many platforms might generate clients' confusion, too few might not help in generating brand awareness. For this reason, advertising agencies should focus on making the right selection of media. In order to reach the brand awareness objective, they should try to reach final targeted customers from different directions.

While they are both different from one another, marketing and advertising basically rely on each another in order to reach success. In other words, it's not possible for marketing to work well without an advertising campaign, and on the other side, advertising is quite flat without marketing supporting it. Despite their strong differences, using these two techniques together represents a great chance for a company to increase and maintain the sales they would like to see.

2.2 Structure of Advertising Agencies

Good agencies rely on good structures. This means that in order to obtain great results it is important to have a good organizational structure to rely on. The organizational structure represents a sort of hierarchical decomposition in which each member has its own task to carry on. This is good, since a good division of labor leads to greater results. Adam Smith better explains this concept in his work: *An inquiry into the Nature and Causes of the Wealth of Nations*

'A workman not educated to this business (which the division of labor has rendered a distinct trade), nor acquainted with the use of the machinery employed in it (to the invention of which the same division of labor has probably given occasion), could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty. But in the way in which this business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire, another straights it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head [..]'

This few words are well explanatory of how important an organizational structure is for a company. It helps company to grow, to focus on the smaller parts of the process thus to obtain more detailed outcomes and also to save money. Smith also stressed the disadvantages of such a division because as he said, this leads to a 'mental mutilation' in workers: they become ignorant and live confined in repetitive tasks. There are different ways in which the labor can be divided or an organization can be structured and according to the different solutions adopted the labor might be more or less specialized. But, no matter how specialized tasks will be within an organization, what is important to remark is that, an organizational structure at the basis is always required.

For what concerns the advertising agencies, organizational structure is different from agency to agency. It depends on various factors, such as the size and the number of people employed by the company and the quantity and value of accounts it has acquired.

Organizational Structure of XYZ Advertising Agency

Board of Directors

President / General Manger

Vice President Marketing Services	Vice President Management & Finance	Vice President Creative Services	Vice President Account Services
Coverage	Coverage	Coverage	Coverage

- Media
- Research
- Sales Promotions

Finance — Office Management

- Personal
- Records
- Public Relations

Copy Art — Production — Traffic

- TV & Radio
- Press

- Account Supervisors
- Account Executives

Advertising agencies are structured to integrate the various services and tasks involved in creating and placing advertising. They vary widely in terms of size and scope and cater to different kinds of businesses: large agencies often have big staffs and departments assigned to develop the strategy, conduct research, create the ads, and select the media, smaller regional agencies are typically independently owned and operated; yet provide the same fundamental tasks of account services, creative and media.

For most of the agencies the **chief executive officer** (CEO) does occupy the top tier position. The CEO has the responsibility for the agency's future and sets short- and long-term goals and objectives. He is in charge so, of the whole process since he is always the one having the final say. His top tier position leads him get the right combination of skills and team dynamics, to collaborate in the planning process or to evaluate the process of acquisition. CEOs do refer to the board of directors about the financial performance of some business units, but also have board responsibilities, such as leading shareholder meetings or serving on operating and management committees.

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Right behind the CEO, there is the **president** of the advertising agency. He works under the CEO, but we might also say that the two of them cooperate in leading the agency under several distinct aspects. Together, they pay lots of attention to the clients by creating strong customer relationships through meetings or phone calls and trying to understand, as best as they can, their businesses or expectations. Collaboration between them also takes place for what concerns the planning process. President task is also the one of dealing with the evaluation of the potential of acquisition or the affiliation of the agency with other countries whenever a process of re-engineering for the growth begins. President position does also give him the task of directing business units such as creative and account management and the activities and tactics chosen to support strategies adopted by the board of directors.

Under the CEO and the president there are four to five different functional areas separated according to different aspects of the advertising business each one run by different vice presidents. These are the creative, account, marketing and management and finance one.

Marketing services cover different areas such as media, research and sales promotion and the **vice president of the marketing services** controls everything.

Media buying department is in charge to select the advertising time and space needed for a successful advertising campaign. This includes TV and radio time, outdoor (billboards, posters, guerrilla), magazine and newspaper insertions, internet banners and takeovers, and, well, anywhere else an ad can be placed for a fee (The structure of an advertising agency – About Advertising). Behind this, there are other several steps and decisions that are to be taken such as a close collaboration with the creative department, coming up with the new and initial ideas, as well as the target market and the kind of exposure they want. Significant attention is also paid to the placement of the different ad options, especially in the Internet.
Media directors are those running this department and their task also consists in selecting the best way to allocate the client's budget and choose the media that most suits with the target audience needs.

Ad placement is carefully calculated through research and analytical models to determine what is best for the client based on the product/service, the client's goals and budget. Media department represents one of the most important functions because wrong decisions in timing, targeting or choosing the media might lead to a failure of the product. It might be helpful to create a real and proper plan for the clients and doing media scheduling, thus to be sure to be able to catch their attention.

Research department deals with the target market for what concerns their buying behaviors, interest or opinions. The marketing research process starts with defining the problem and the objectives. Once they have been identified, research department main function is the one of carrying out researches to obtain necessary information and thus to do that a research plan should be developed. This plan allows to decide whether there is the need either to outline sources of existing data, the so called secondary data, that have already been collected for another purpose or spells out specific research approaches to collect primary data. From that moment on an accurate analysis of the data and findings starts and it will be then used for several scopes; to achieve different objectives such as to develop the strategy by the account services team or by the creative team to develop and design the communications that best fits with the target. Several different techniques are used such as group or individual interviews, surveys and questionnaires. All of them differ from each other under several aspects; because of their cost and because of the answer provided etc. Telephone or personal interview, surely catch much more the attention of the target audience with respect to mails; they provide much more detailed answers. All information collected are then used by the team mainly to create and execute a good advertising campaign.

Sales promotion consists of short-term incentives to encourage the purchase or sales of a product service. They offer reasons to buy immediately (coupons, discounts), they are targeted toward final buyers (consumer promotion) and sellers may use consumer promotions to urge short-term customer buying or enhance customer brand involvement.

Sales promotion department must make several decisions in designing the full promotion program. First, they must determine the size of the incentive; a certain minimum incentive is necessary if the promotion is to succeed; a larger incentive will produce more response. It also must set conditions for participations: incentives might be offered to everyone or only to select groups and determine how to promote and distribute the promotion program itself. The length of promotion is also important.

Creative services cover several different departments such as copy art, production and traffic. All of them operate under the overall guidance and supervision of **vice-president of creative services**.

The main function of a ***copy department*** of an advertising agency is to prepare an attractive copy-of-ad. This is a very important step, and it is the heart of the advertising because through this it is possible to communicate directly the message to consumers. The staff of this department is made up by a group of copywriters and designers, also defined as art directors. They work together, in client teams of 8 to 12, and develop the main ideas and concepts for the advertising copy using their talent of imagination. This team approach has a dual effect: on one side, it stimulates experienced staff to train new members; on the other side it contributes to employee development and helps the agency to attract top talent of other designers or production artists. The advertising will be a failure if the copy is not appealing to consumers. The head of copy department is a copy chief and he directs the functioning of the whole branch. This is mainly the biggest department of the ad agency, and includes both hard-worker team and experienced staff. This branch cooperates with the art, production and distribution ones.

The ***art department*** deals with making ads as attractive as possible exploiting its power of creativity and it is focused in turning ad-message into imagery that stimulates consumers' minds by preparing, for example, layouts for press advertisement or making posters, slogans etc. This includes a collaboration of the artists with copywriters, who together work to achieve the best final result. The art director who is the one ahead of this department supervises this whole process. Not

all ad agencies have a separate art department. Some prefer to outsource their art-related work to freelance artists. The work of the previous two departments is strictly related to that of the production one that deals with the further processing of everything.

The *production department* is charged of processing and producing the final ad. The whole process begins with contacting the press or typographers and assessing the design patterns or the illustrations used to prepare the final advertisement. Because advertising agencies do always refer to their clients, these businesses need to approve the work done before releasing it and then it is sent to print media like magazines or newspaper. In the latest years, there has been a great increase in technology, which led to a shift from the print to the digital media; so as a result, some production houses have adapted to this change modifying some steps of their work. They keep in touch not only with the press but also with web designers and do arrange the work of digital art. After clients approved the final product, this is not sent to the magazines anymore but to digital media such as Internet. Not all ad agencies have a separate production department. Some prefer to outsource their production-related work to others.

Some agencies do not have all these several branches, but there only is one single creative branch that does the entire work of preparing an advertisement. In this case preparing an ad copy, artwork and actual production of ad are tasks executed completely by this department alone.

This creative department tasks differ according to whether the agencies are large or small; in larger ones, it manages teams working on different accounts, in smaller ones, on the other side, it only hires a creative director who works with freelance writers. This area is the heart of any advertising agency since it is responsible for the final product, which is the final message produced to capture consumer's interest; so an ad agencies is classified as a good one according to the ads this area get shout. Everyone addresses to the creative director; it's up to him or her to control the creative product, making sure of the quality of its product, brand, and time.

A large agency might have two levels of account services management: account director and account executive. Both of them refer to the **vice president of the account services**. This department is in charge of connecting with the agency's many clients.

Account directors, report to the agency's management team and supervise the work of account executives. They occupy an above position with respect to them, which is the one of account supervision. These directors are those taking responsibilities for a group of accounts and keeping relationships with the agency's most important clients, always at a director level.

Account executives report to account directors and manage daily operations on their accounts. Their responsibility also concerns for the most with introducing new business into the agency and setting a budget and a deadline for the realization of the projects. They work directly with their clients to figure out the benefits offered by a specific brand, to whom they should send the messages: the final targeted audience, and the best competitive position. Finally, at the very end they develop a promotional plan.

Finally, we have the accounting and finance services run by the **vice-president of the accounting and finance services** whose main duty is the one to look after financial and accounting matters. This means it deals with handling payment of salaries, benefits, day-to-day business costs etc. First of all it should create or raise invoices on clients and send them constantly reminder to recollect unpaid dues. It is important, to avoid losses, to book the expenses of the vendor parties on a timely basis and also to issue payments to vendor parties within or on the due date. All of these payments should be registered in a financial statement, where cash in and cash out are balanced and always have to show the same amount. Financial services also deal with depositing government dues; also in this case, a timely basis needs to be respected.

2.3 **Trends of Advertising Agencies**

While word to mouth is still considered one of the most influential forms of marketing, advertising has seen increasing growth. Advertising gained importance in the latest years, and it started growing more and more. The year-over-year change started growing in 2012, global ad expenditure was 4.5 percent higher than in the previous year. This was mainly because of the bad market conditions and the political unrest of 2011 that may have contributed to a much lower spending. Only at the end of this year, advertising spending started increasing leading to a strong year finish and to a raise of 3.1% in the first quarter of 2012. Dollars devoted to ads in emerging markets increased at a faster rate than global ad spend as a whole. The Middle East and Africa also increased when advertisers started to stabilize their economies, in particular Egypt. Latin America also saw significant continuous growth while for what concerns Asia, there only is a slight increase after the large gains of the recent years. Opposite instead is the situation in Europe that is the only one seeing a drop in the ad expenditures. This because, in the Eurozone, the strong economic crisis mainly the Spanish banking one at the beginning of the year and Greece's bad conditions affected a lot the total amount dedicated to ad expenditures.

Global spending in 2013 is at an all-time high reaching $500 billion for the first time. Ad spending grew steadily; especially in China allowing it to reach the third position in the ad market (behind the U.S. and Japan) and becoming one of the fastest growing countries among the world's 10 largest ad markets. The most China-centric advertisers: KFC, Red Bull and Group placed most of its measured-media spending in China.

2013 also saw also a change in the ranking of different media consequent to an increase in ad growth. Even though television keeps holding the highest percentage of advertising spending, Internet saw a big increase in these years. This was due mainly to several reasons such as a high level of consumer confidence or brands willingness to reconnect, and these led it to rocket newspapers in 2013 becoming the world's second-largest ad medium behind TV.

The graph below shows the change in the increasing rate of Internet since 2005 when it was ranked sixth in the global ad media to 2013 when it gained the second position capturing 20.6% of 2013 global ad spending.
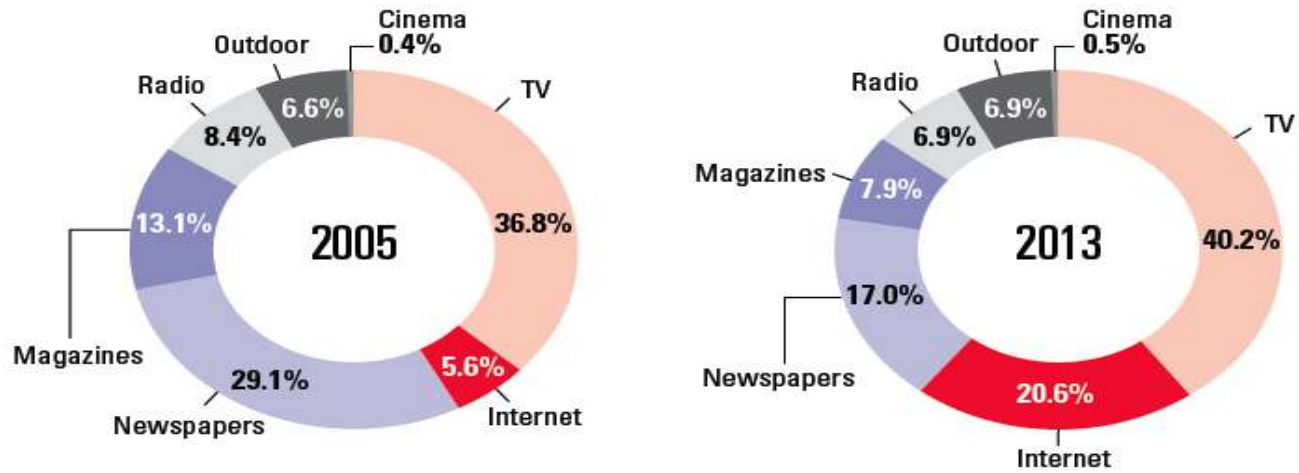
According to a global overview of 2014 there have been several positive signs for advertising across the planet. According to a forecast published by *Publicis Groupe's ZenithOptimedia* there are different trends that should be observed for what concerns advertising. First of all global ad spending is gaining momentum; this means this spending is high now and it is going to increase more and more in the following years. Forecasts showed that global spending will rise 5.8% in 2015 and 2016; a significant increase with respect to 3.6% of 2013. In these latest years there has been a significant acceleration in the ad growth expecting to reach 4.6% in 2015.

In this new context in which advertising is growing, advertising agencies are gaining territory and also evolving continuously. They are changing under every point of view; both in the way in which they relate with their customers and in the way they operate. This, mainly, because of their intention of overcoming traditional models and become more connected with clients. When agencies are faced with disruptions, a recombination of existing features and technologies presented in disruptive way, they usually adapt to them rather than try to fight them so they lower their prices to retain existing clients and attract new ones.

In these last years, advertising agencies evolved a lot and this is mainly due to several different reasons such as: many agencies started finding their niche; this means that they started focusing on specific area that is not much exploited by the others. There are agencies that specialize in everything.

This is also proven by the fact that those agencies involved in a total advertising business are losing clients. Because of these other ones focusing on specific issues and not dealing with everything, clients might choose different agencies to manage different tasks such as manage their mobile platform, print collateral and online marketing. This is one of the trends that changes the agencies world and forces them to figure out new solutions to attract clients.

The role agencies are playing for the brands is also changing; this is mainly due to the disruption, that forces then to change their approach to customers, their services and their teams. Vice versa, this disruption also led to some changes for how the brands relate with the agencies; they should in fact pay attention to them thus to determine if they are able to meet their growing demands.

Technologies lead advertising agencies to continuous changes since they need to find a way to make technology and demand of their customers coexist. This means that apart from all those changes required by the disruption, it is important for advertising agencies to be able to drive marketing innovation as well and the rise of new marketing approaches such as social media and mobile. In this way, these agencies also pursue to increase this consumer-centric behavior and to create a stronger connection with the customers.

Even though agencies need to be on top of trends and really need to and improve, it is important for them also to maintain a strong understanding on traditional and proven advertising methods. It is important to keep an eye on the modernity, always be aware of how quickly the world is changing and try to move along with it thus to be always updated but, as in real life, sometimes 'old-style' solutions might be the best ones.

Agencies should think about new solutions to be back in the race and so they start to consider how to improve. A possible way is the one of using an ***integrated approach to all of the available marketing channels***; that will help clients to achieve their goals. This requires integration between brands and their clients' marketing teams. Moreover, another idea might be the one of avoiding using a campaign after campaign for a marketing plan, but instead ***focus on story telling***. This of course is a long-term strategy that holds customers and client interested for a long time. These stories catch the attention of the customers involving them in the story; and 'episode' after 'episode' the brand is able to tell larger story that includes all of the different offerings or elements that want to be promoted. In order to make consumers much more involved, agencies should take into account a theme-based story to humanize brands and keep them in the minds of their target audiences. Every modification that is being applied to agencies is focused on better satisfy customers so teams have been created aimed at combining specialists to satisfy in the best way possible client's needs. Also ***hiring methods*** are going to change; the one having the highest chances to be hired are those proposing specialty. However, agencies do not underestimate the importance of generalists, who are those better understanding how all of the marketing channels fit together and this might be relevant if agencies focus on the this new integrated approach. Generalists play an important role because if on one side there are the specialists focused on the details, on the other side they add perspective and depth; together these efforts create a great impact for the client.

At the end, the last trend that agencies should consider to gain territory is the importance given both at ***producing content for clients*** *and* ***at understanding mobile impact on the clients.*** The client's website and the content produced are critical elements for agency success and help pushing agencies forward.

Some other solutions that have been found for agencies to always improve and adapt consist, for example, in focusing on new developments and new offerings such as using social media services to stay in contact with clients and understand consumer tendencies rather than only offering radio or television campaigns.

According to this, another trend that is important to remark is the one dealing with the incorporation of the social media agencies in the advertising ones. This is really a significant step forward because 'tweets' or 'status' do reflect the real thoughts and preferences of the clients, and in this way it is easier for agencies to understand how to satisfy them.

This new trends arising from the new advertising features of the social networks such as Facebook or Twitter are really important since these allow agencies to earn content and then turn it into advertising. In this way, they give both an opportunity for social marketers to get into the advertising game and for ads to perform at a higher level because they've been 'approved' by the crowd. This, of course, leads to several consequences for the industry.

First of all advertising becomes limited to social networks; this means that most of the ads purchased by the agencies are too limited to Facebook or Twitter; this mainly because in this way it is possible to analyze which content performs best also using some particular features such as 'likes' on Facebook or 'hashtag' on twitter. In this way, a sort of connection is created and the information is spread thus to attract new audiences.

One of the most significant advantages of this situation for advertising agencies is that social media agencies lack of advertising background so they might have a longer term approach for community building, and consequently it's not said that the result is guaranteed. For this reason, they need to be backed by the advertising agencies that gain control over the social networks improving then their content, their possibility to reach the audience and to open doors to new way of communication.

Agencies need to differentiate to change and to develop new solutions, to keep holding this position, avoid to perish and to survive long-term. In thinking of how the agencies should change thus to be valued most five years from now there are several trends that should be taken into account.

First of all, content has to gain the leading role; this means that the best way to improve and to reach the consumers is focusing on what the advertising really

communicates to the audience, the message that arrives more than on the creative way of communication.

Also smaller agencies should gain lots of consideration. This mainly because the smaller they are and the more specific they can be. It is quite difficult for them to improve as much as big agencies do. One of the predictions made in this industry is that small and mid-size agencies will have trouble surviving in the future; for this reason, it might be a really great idea for big agencies to focus on smaller companies in order to represent them. In this way, this would be a win-win situation for both since this would allow both to the agency to diversify its business and to all the regions to rise.

Advertising agencies should start focusing on several trends, not only these one named; also a deep understanding of marketing technology might be an advantageous step for the improvement. The media landscape is changing quickly and it is now important for agencies to have a broader view on all the different media (traditional, digital, social). Equally important is for them to be creative and able to use all of these media in the best way thus to try to optimize ROI.

Of course, this process of development of the ad agency can currently take place mainly because of the significant changes arising after the recession and because of the new tools that before couldn't be accessed by the agencies. This allowed the realization of much more projects and also led to higher budgets expenditure on these.

Agency new business is about to get harder; this mainly because of a high competition that created after the budgets opening up. In this way agencies need to differentiate thus to be unique in something. But, it is common knowledge that agencies aren't very good at differentiating themselves. They are afraid that clients will share the 'secret sauce' of their success; so they try to avoid this by spilling it and giving up the opportunity of having a unique characteristic.

This is a typical behavior of the advertising agencies, and this is way it is quite difficult for them to differentiate. In fact, the majority of the secret sauce across agencies is more or less the same.

As a consequence agencies should, so, try to figure out other strategies that will remain consistent and that allow them to be superior with respect to its competitors. So even if today agency business is in a better place, it still has to work a lot to improve more and more to try to find out new ways to ensure value to the prospects. Several are the advices that could be given to agencies to inspire them and to make sure they will be in the market and able to fight in there are many.

First of all, starting the business with one solution to an identified problem is one of them. In this way, it will be much easier for the agency to earn trust from its clients and to convince them to give them their work in a future. Clients do usually appreciate if firms are really interested in their needs and try to do the best they can to solve them. For this reason, even though past experiences are a significant proof of how an agency works, agencies should not focus too much on what they have done in the past and show their clients their real interest in their problem.

All of these trends and aspects that have deepen underlined show that, no matter how hard competitors might try to gain a big share of the market, the future of the advertising is in the agencies' hands.

3. CASE STUDY: SCHOLZ & FRIENDS

3.1   An insight of the company

Scholz & Friends Group GmbH is one of the most important advertising agencies in Europe and one of the leading agency groups in the German-speaking countries. Founded in 1981 by Jurgen Scholz, Uwe Lang and Michael Menzel in Hamburg, this group also includes other companies of PR- and communication services.

The headquarter can be found in the center of Berlin (Berlin-Mitte) as well as in Hanseatic Trade Center in Hamburg. At the beginning, the agency only opened one single office in Hamburg. During the first years of its life, it easily won important clients such as: Doppelherz, Tchibo and also important institutions such the Hamburger Schauspielhaus Theater and developed, for them, really successful campaigns.
For this rapid and significant success, it was defined as one the most creative agencies in Germany and it easily gained a position in the 'top groups' thus to be elected as 'agency of the decade'.

In 1985 the founders of the agency sold it to the international network Bates, which, in turn, in the same year, was sold in turn to Saatchi & Saatchi. Thanks to the fall of the Berlin wall, Scholz&Friends has been able to open an office also in Berlin. Over the years, the office became the biggest Scholz&Friends office and now it is the one dealing with the most important clients such as: MercedesBenz, BCG and the Süddeutsche Zeitung.

Right after Berlin's office, Scholz&Friends in 1995 started opening new subsidiaries outside Germany becoming so, in two years, the first German communications agency in the world. In its 'portfolio' it is possible to recognize several important clients such as DB Bahn, Müller, Opel and also institutions like the German Federal Government and the European Parliament.

The real event changing the reputation of Scholz & Friends was its merger with United Visions Enterprise in 2001. This entertainment production company improved Scholz & Friends' capabilities helping the agency to find clear solutions and ideas that perfectly suited with the needs arising from the market. Year after year, thanks to the internationalization due to the opening of new branches and thanks to the reputation gained, the agency has been able to strengthen it position and acquire new important clients such as, Coca-Cola's Cappy. It reached the apex of its success in 2003 when, all of the different offices started bringing important clients to the agency.

As part of a strategic alliance the agency worked occasionally with Lowe Worldwide. Lowe Worldwide represented Scholz & Friends on international markets where the agency group was not represented, particularly in Asia and the Americas. Since April 2011, Scholz & Friends is part of the global communications holding company WPP. Parent company Commarco was acquired in 2011 by WPP, but retains separate branding, operating separately from WPP's other networks. WPP is the latest in a series of different owners.

Nowadays, Scholz&Friends has circa 800 employees in several different places in Europe. Its offices in Germany are placed in the most important German cities such as Hamburg, Berlin or Frankfurt; while, its foreign ones are, as well, in the biggest European cities such as Prague and Rom.

> In order to understand the tasks of this German communications firm, an article
> of Bloomberg Businesswerk reports:
> "Scholz & Friends is an agency that provides advertising services for the
> German-speaking market in Europe. It offers services in the areas of 3D-
> communication, advertising, branded entertainment, consulting, CRM/dialog,
> CSR, database management, design, event marketing, fulfillment, interactive,
> mobile marketing, public affairs, public relations, retail marketing, sales
> promotions, social media, sponsoring, and telephone marketing."

Scholz & Friends' policy consists in working hard to achieve the best results possible and this includes always improving itself thus to be able to offer expertise in every

major communications discipline. For this reason, its strategy consists of several different actions aimed at solving every external problem that might arise.

In the latest years, because of the multiple new efficient solutions found to gain the public attention, brand communication effectiveness is decreasing. Nevertheless its cost is going to increase more and more.

One of the main causes of the constant increasing cost of brand recognition is the *fragmentation of the media*. Because of a larger number of advertising channels, public attention is going to be shared among all of them leading to no channel to dominate. This means that if agencies want to capture the attention of a larger audience, they do not have to invest only in one way of communication, but rather on several ones. Being present on several different channels is not only expensive, but also boring and might lead to the contrary effect: people might become immune to the message.

This means that efforts made by several millions of brands in transmitting their message might be useless and, moreover, only few brands can afford to gain attention by using lots of different advertising means. For this reason, Scholz&Friends uses its four 'efficiency boosters' to try to obtain great results to attract and retain its clients: push and pull communication, orchestration, the international network and the outstanding creativity. It is important to understand the importance of these boosters for the brand communication and how do they work.

The first one is the '***push and pull communication'.*** This comes from the idea that brands are more facilitated in communicating efficiently if they do not focus only on push methods, but also on 'pull' ones. The main difference between the two is that, while the 'push' ones mainly rely on exploiting the spots in commercial breaks or sponsorship notices on the periphery of a program, the pull ones aim at using the program itself to transmit the message to its audience.

This pull communication as way to attract new clients was also way facilitated by the explosion of different media: TV, Web etc. Its merger with UVE in 2001 signed the first step in increasing its level of expertise in this new pull way of entertaining for

Scholz & Friends. An example of a Scholz & Friends work realized using this pull communication method might be the introduction of the life of Stephanie Gräfin von Pfuel as subject of several stories for magazine-style TV programs, and programming. Managing well both push and pull channels increases the efficiency of brand communication. The most important aspects for a brand are to be credible, coherent and distinctly recognizable. These qualities are threatened by the presence of several different existing lines of communication and one solution to this kind of problem might be the 'integrated communication': even though this has not always led to successful results.

This first booster allows Scholz & Friends to be a step ahead its competitors and to ensure its customers a competitive superiority.

This concept leads to the second booster used by Scholz&Friends, which is the *'orchestration'*. The problem with the integrated communication relies in the term "integration" itself. At the basis of a good communication program, there is the concept that the *structure follows the idea*. This means that, first the idea is thought and then the structure is created to communicate it. By using an integrated system instead, the situation is reversed. With integration we refer to complementing one communication channel with others; this means that first the structure is established and then the idea is developed. In other words the idea is the one following the structure.

> "In music, composers do not try to integrate sixty independent musicians – they write a musical theme and the score gives it a voice – not reversed. Each instrument is chosen to play the strands of the piece best suited to it. You cannot integrate around ideas – the idea has to set the pace, tone and rule over all details. Like in an orchestra, with a conductor at its heart. **Every instrument follows the leitmotif "** *(Orchestration succeeds where integration fails, The orchestra of Ideas – Scholz&Friends)*

This concept of the 'idea following the structure' leads us to the Scholz&Friends' **Orchestra of Ideas**. This model provides a clear view of the company both inwardly and outwardly and allows to learn how to play as a team. It proves that it

does not exist one dominant discipline (or channel) anymore, but the idea itself assumes the role of the main character in the communication process. Moreover, by quoting the example of an orchestra independent from the other instruments, it's possible to see that at Scholz&Friends' agencies there is one single conductor who is the brand manager that has the overall responsibility.

Scholz & Friends has been implementing and modifying its way of working along with these lines. First of all it established Brand Management Groups aimed at overseeing the brand concept and to implement it across all the instruments and conduct the specialists in the orchestra. *(Orchestration succeeds where integration fails, The orchestra of Ideas – Scholz&Friends)*

Scholz&Friends applied this 'orchestration' by establishing a Partners' Board, created on the basis of other similar bodies in other similar businesses. This model allows members of the subsidiaries to become partners; the nomination is based on factors such as: performance, feedback from collegues etc. They're provided with a bonus whose amount is proportional to the final outcome achieved by Scholz&Friends. In this way, it is possible to have one single conductor of the orchestra and the others are satisfied with their position as just members of it. This method leads to a win-win situation both for the agency and for the employees. In this way, responsibilities and expertise are well distributed, and employees are much more incentivized to work in the interest of the firm if they see their efforts recognized. This new model showed great results that let hope for the best. It was used to conduct the campaign for Hapag-Lloyd Express, the new no-frills airline. The taxi design concept (developed by Interbrand Zintzmayer & Lux) set the tone, and very soon – and at little expense – a friendly and, most important, successful new airline took off. From billboard to pizza box, from press event to trade fair, every strand of communication faithfully followed the New York taxi motif and the tagline "Fly for the price of a taxi." *(Orchestration succeeds where integration fails, The orchestra of Ideas – Scholz&Friends)*

The third booster used by Scholz&Friends to be considered is the ***International network.*** The above described orchestration model is helpful in allowing to manage different communication channels contemporary, but it is as well important also to achieve results internationally. Mainly because of the integration in the Eurozone, most of the companies started operating also in the international markets after reaching a certain size. This surely represents an advantage for the clients since, in this way, they only have to deal with one single agency per product all over the world rather than changing it according to the country where they want to advertise.

Using one single agency in different countries has its own advantages, as seen before, but it also has some cons. In fact, even in a united Europe, nations are really different. For this reason, it is important to choose an agency able both to handle the local markets and to ensure well orchestrated brand message able to capture the public's attention also outside the national borders. The locations of the subsidiaries is an important choice to be made since it is important for them to be located in a position that allows the company to grow facing the challenges of a constantly changing market and still provide high-quality services.

Scholz&Friends has been the first German communications company focusing on the subsidiary location as one of the sources for greater results. In fact, each one of its agencies has strong local positions working both for domestic brands and for international ones. For example, Scholz & Friends London is worldwide lead agency for Imperial Tobacco's international Davidoff account.

The last factor characterizing Scholz&Friends' strategy is the ***creativity***. Because of the large variety of existing advertising channels, it is important for agencies to develop creative idea to capture the attention. Agencies should always try to find the spot that most attract the audience or that makes them talk about it. It is important for them always to surprise and persuade the public.

Creativity means that a spot or an ad should be better and distinctive with respect to the others thus to be remembered by the consumers. Advertising is the foundation of clients' opinion about the brand. If the spot is able to convince the clients and to capture them, the brand will be the one that most will benefit from all of this.

Contrarily, by using advertising without creativity the opinion of the consumer with respect to the product might be triggered.

Scholz&Friends is one of Germany's most creative agencies. It reached its apex especially in 2002 with its successful entrance at the Cannes Lions International Advertising Festival, winning four of the six German Lion awards for press ads as well as 12 shortlists. This result places it among the international elite, and, allowed it to prove for the fifth year to be Germany's best agency at the world's premiere creative competition. This success was also replicated at other major international festivals, with Scholz&Friends winning five Clio Statues and 20 shortlists at the Clio Festival, four medals and seven distinctive merits at the ADC of New York and two "winners" and 60 shortlist placements at the London International Advertising Awards (LIAA) *(Creativity – Ideas generate value - The orchestra of Ideas – Scholz&Friends).*

Most of its projects are famous and successful. Among all of them there is one, which might be considered as the masterpiece of the Scholz & Friends' creativity: the realization of the campaign "Land of Ideas" FIFA World Cup 2006. It represents Germany during one of the most important sport event, and aims at bringing into light all the positive characteristics of the country.

'**Land of Ideas**' is the most successful promotion campaign in the history of the Federal Republic of Germany. Several different sculptures were positioned in strategic points in the city center and they were the main subjects of a PR campaign named 'Deutschland – Land der Ideen'. The main aim of this campaign was the one of transmitting a positive image of Germany both nationally and internationally. All of these sculptures had a different and important meaning and both the corporate design and the design of the sculptures was a masterpiece of Scholz & Friends.

This campaign enriched the German agency of several awards such as the German EVA Award.

Six were the sculptures spread in the city during 2006. Each one of these sculptures had a different meaning and plaques both in German and in English were used to

explain the symbolism of each object along a path exemplifying Germany's research landscape and cultural history. ***Der moderne Buchdruck*** (Modern Book Printing) was positioned in the main street: Unter den Linden. It consisted in a tower of books, each one representing an important German poet or writer erected with the aim of reminding to the invention of the modern letterpress and the creation of the first best seller. The second sculpture represented the ***Milestones of medicine*** nearby the Reichstag. It was in the shape of a pill and was intended to symbolise breakthrough pharmaceutical research, some German developments in medical equipments such as X-ray tube and the fact the Germany is one of the top country in pharmaceutics and medical technology. The sculpture "***Meisterwerke der Musik***" (Masterpieces of Music) consisted of six notes. It was aimed at underlying how much music was important for Germany; representative names are representatives such as Bach, Beethoven and Wagner. ***'Das Automobil'*** (The Automobile) was chosen to represent the invention of the diesel engine that took place in Germany.

The fifth sculpture was ***Der moderne Fußballschuh*** (The Modern Football Boot). This either reminded to the World Cup taking place in Germany that year, but also outlined the fact that German brand 'Adidas' developed soccer shoes that the national team wore during their winning at World Cup 1954. The last sculpture represents the most famous equation in physics: $E=mc^2$ concerning the ***Relativitätstheorie*** (Theory of Relativity) of Albert Einstein.

Successful ideas like this one do not come from nowhere, but every great achievement is a consequence of some thought, planned and organized actions. Every detail should be considered and the process of creating should be constantly checked. For this reason, Scholz&Friends established the **International Creative Committee (ICC)**, which makes evaluations of every work by Scholz&Friends offices worldwide and provides to reward the best experience in every major sector. The seven leading creatives for Scholz&Friends agencies represent the jury evaluating the idea in every country in which the agency operates. It is an important process since it allows each office to reflect on its own results and stimulates them to perform better and better.

This ICC uses a range from 1 up to10 points and represents the standard measure used for the evaluation of the creative quality of work within the company. This system is used not only for bigger projects, but also for daily decisions. In fact works must be continuously evaluated internally before being presented to clients, if they fail to pass the scale 1-10 evaluation, then they should be revised before being presented to the clients. This method incentivized all of the offices leading to a remarkable increase of creativity.

Thanks to the adoption of these four boosters that shaped the German agency strategy and way to communicate to the public, Scholz & Friends gained such a great reputation and it is constantly growing in its industry.

3.2 Scholz & Friends as subsidiary: Cordiant, Cognetas and WPP

Scholz&Friends has a history as subsidiary of other parent companies. It was founded in 1981 by Jürgen Scholz, Uwe Lang and Michael Menzel, but for its whole life the management of this agency has been subject to several changes. The history of the ownership or management of the advertising agency Scholz & Friends can be divided into several periods. First of all, in 1985, only 4 years after the presentation of the agency to the public, it was sold to the Bates Group. This last one sold it again to Saatchi & Saatchi and *Cordiant* during the same year.

In 1992 Jürgen Scholz decided to draw back from the management of the agency exiting the Executive Board and leaving everything in the hand of Peter M. Schöning, a Scholz & Friends partner for many years. This was followed by an intermediate phase before 2001 when Sebastian Turner and Thomas Heilmann took over as CEO of Scholz & Friends.

Cordiant ownership is disengaged only in 2003 when, thanks to a management buy-out, an imminent takeover ownership of the company took place. The media group was in trouble and needed to sell the advertising business in order to start to fight for their survival. For this reason, it sold its shares of Scholz & Friends agency to the private equity firm Cognetas, which formed Scholz & Friends Holding. The holding company was re-named Commarco in 2008, and is majority owned by Cognetas.

The market welcomed the announcement that Cordiant was planning to sell its shares in Scholz & Friends AG. This separation from the parent company allowed Scholz & Friends to start speeding up with the process of expansion completely freed from the restrictions imposed by Cordiant's austerity program. The sale of the shares will open up some potentially big opportunities for the Scholz & Friends Group.

Until this moment, in 2003, the company had gone through several changes in management since it had been sold and bought several times. This was the first remarkable timeshould of Scholz & Friends as an associate. Scholz & Friends holding company was then re-named Commarco in 2008, and its majority was

owned by Cognetas. It was one of the largest holdings for communications and marketing services in the German-speaking countries. Commarco had about 1500 employees and about 30 agencies. Scholz & Friends was, and still is, the largest of them. In this period the German agency created campaigns like the one for the "FAZ", or for Baden-Württemberg, whose residents " alles außer Hochdeutsch" can.

Commarco's clients included a number of German blue-chip companies such as Siemens AG and Deutsche Bank AG, as well as international companies like American Express Co. and Vodafone PLC. This relationship with Commarco is the first real important one that should be remembered when we talk about Scholz & Friends. This collaboration led to several important results that affected the performance of the associate as well as the parent.

This relationship with Commarco allowed both Scholz & Friends and its parent company to close the following years with a pleasing result. In the Cognetas phase, from 2003 to 2011, Commarco claimed to have doubled the turnover of the Group from 69 million euros up to 133 million euros almost. Especially 2007 and 2008 great results were achieved thanks to a new management structure. Also an important above-average growth and a positive balance were recognized. During these years, internally, Turner and Heilmann passed the presidency to Frank-Michael Schmidt and Christian Tiedemann. But, this still cannot be considered as the beginning of a new era. This because although Heilmann completely withdrew, Turner still was part of the agency since he joined the Supervisory Board.

Christian Tiedemann, the new Co-CEO of Commarco, said that collaboration with Cognetas helped the agency increasing its profits and improving. He stressed how important this relationship was since it helped a lot the company to improve more and more. He always tended to outline the great results achieved thanks to this collaboration. Revenues of the company nearly doubled, new acquisitions in dialogue marketing, PR and digital have widened their offering and prepared the company to be ready to tackle the challenges of the future. For this reason, Tiedemann was really satisfied of this partnership and willing to look forward to continuing this success story with it.

The German agency, Scholz & Friends, was Commarco piece of resistance. It was the only German agency, which for over ten years continuously has been part of the three most creative advertising agencies in the country. Both the Gunn Report and the Won Report, defined it, respectively, as the best and one of the best five agencies in the world.

When Cognetas acquired Commarco, nobody, at the time, paid attention to the idea of purchasing an advertising business in Germany. Agencies were much more interested in establishing their own business in Asia. The situation was instead quite reversed when Cognetas decided to sell the company. Even though Germany before was not considered, it was now experiencing a huge growth. Several agencies started focusing on it and wanted to develop their business there. Moreover, the fact that Scholz & Friends had won an important contract with Opel also made companies more willing to purchase it. The fact that offers started to arrive and the deal was then concluded in less than a month, says a lot both about the quality of the company and about the new companies' willingness of investing Germany.

Starting from this point, it's possible to name the second important acquisition to be remembered in Scholz & Friends' history. In 2011, the agency and its holding company Commarco, became part of the globally leading **WPP network**. The investment company Cognetas, which held 65 percent of the shares in Commarco agreed to sell the German network Commarco GMbH to global advertising group WPP PLC; the current and former managers of Commarco also sold their 35 percent stake in the British advertising group. In this way, WPP became the holding company of Commarco and, in turn, Scholz & Friends did become a *second-tier subsidiary* of WPP.

Now, however, a new era could actually begin. Commarco and consequenylu Scholz & Friends was sold to the operating worldwide British WPP network together with its nucleus for an estimated 150 to 200 million euros. One more time, Scholz & Friends belongs a large international advertising group. After the sale in 1985 to the network Bates, Saatchi and Saatchi, Cordiant Group and Commarco, Scholz & Friends became now subsidiary of the WPP Group.

WPP is one of the most complete agency group for the future. Scholz & Friends chief, Schmidt, has only been able to recognize advantages from this collaboration. Thanks to this, the agency became ready to offer its customers the German international achievements of the world's leading advertising network. In fact, in addition to the digitization, the internationalization represents the mega trend of this advertising agency. Commarco, strongly focused on Germany is considered international, even though several overseas branches do not have a strong position.

The sales process has been done relatively quickly because Cognetas targeted only two potential buyers - WPP and Publicis competitors. WPP was in the advertising industry from the beginning as a prime candidate for a purchase of Commarco / Scholz & Friends. Martin Sorrell, CEO of WPP, had repeatedly expressed its interest in acquisitions in Germany at events. It included many familiar names of advertising agencies, such as Ogilvy and Young & Rubicam.

Scholz & Friends represented an important element for the WPP group, as explained by sir Martin Sorrell, owner of the British advertising group. He is the master of a global advertising empire and now he is also behind the displays of the "Frankfurter Allgemeine Zeitung". Sir Martin Sorrell grabs the German agency Scholz & Friends pearl. After years spend trying to acquire this company, finally the head of the world's largest advertising group WPP is growing again.

The inclusion of Commarco/Scholz & Friends was not risk-free for WPP. It gave raise to the doubt that the acquired company might have the intention of changing its portfolio creating so problem to its parent company, but fortunately this did not happen. This did not happen also because the British company had decided upfront to include the Commarco only after having convinced them to follow their current lineup.

According to Sorrell, the Agency was developing well not only in advertising, but also in the digital domain and in the PR. He has a clear vision of the future direction of the agency. Scholz & Friends was kept as a 'separate identity' and was positioned as an independent agency, not as part of the WPP-Networks. This means that, WPP agreed on leaving Scholz & Friends the possibility to maintain the brand and its own

management. Sorrel, moreover explained that its race for the Scholz & Friends Mother Holding Commarco with the French Publicis Group was finalized to obtain the strongest possible position in Germany. Publicis, under the management of Maurice Lévy had been unable to compete with the much higher offer. *WPP-Chef Martin Sorrell: "Scholz & Friends muss die eigenständige Identität wahren" (Datenbasierts Marketing: Der Konigsweg zum Kunden, 2012)*

Among the several reason why WPP CEO sir Sorrell decided to acquire Commarco, and so consequently Scholz & Friends there is the fact that he noticed that Germany economy was growing quite fast and was the third-largest market after the US and UK. Scholz & Friends appeared so to be the best existing solution for WPP. In fact, it is a German agency and Germany has emerged from the financial crisis, has a strong export economy and a highly developed industry, which is one of the reasons for the acquisition. In this way Sorrell, WPP CEO, has been able to be active also in a growing country like the German one.

When WPP decided to include Scholz & Friends' parent company as majority shareholder, no one would expect such decision. This choice of taking Commarco as subsidiary was an interesting move for WPP who, over the years, has always been negative about future prospects of growth in Europe. The company rather preferred to concentrate on other parts of the world such as China or America.

Looking at the results of this parent – subsidiary relationship, it is possible to notice that it led to great achievements and improvements to both to the parent company: WPP and the subsidiary one: Commarco/Scholz & Friends.

It is important to remember as leitmotif of the acquisition that Scholz & Friends was one of the leading agencies in the world. In that period, it counted lots of clients among which very important ones such as American Express, Commerzbank and General Motors' Opel. The acquisition by WPP led both Scholz & Friends and the British company to improve their future performances. Their relationship aimed at offering to the customers in the German-speaking countries high-profile international

solutions. This relationship brought, so, also to positive outcomes and consequences also for Scholz & Friends.

Entering the WPP world opened the doors to Scholz & Friends to the next level in the company's development. Combining with WPP, the global number one, a whole new universe of international possibilities was provided to the company, both for the clients and for the employees. German service range has also been broadened by top-class specialist expertise. With this step, they are reinforcing their own position as the first choice for blue-chip clients in the German-speaking world.

Scholz & Friends represents the hit series of Commarco and also the core reason why WPP decided to acquire it. This advertising agency benefited from being the subsidiary of an important advertising company like WPP. This because, thanks to the resources and capabilities provided by WPP, the company has been able to grow and to be more ready to face the challenges of the future.

Thanks to these changes in management, Scholz & Friends experienced an expansion of its range of resources to include more top-class specialist expertise and it also met its expectations of supporting its clients on an international basis while keeping the agency's main operations in Germany. This improvement led the firm to start working for important customers such as Vodafone. She also oversaw the campaign "Behind is always a clever head" for the Frankfurter Allgemeine Zeitung.

Market research and digital competence in the WPP network played an important role in this partnership; according to a market research of 2008, it has been proven that this partnership highlighted the increasing role of new media and technology in brand communication.

This deal made by the two companies had a significant impact on the whole German advertising landscape. According to industry insiders, Scholz & Friends is today already part of all major tenders and nothing will change.

3.3 Scholz & Friends as Headquarter

Even though Scholz & Friends has a history as 'subsidiary' of several different companies, it also represents the 'headquarter', the parent company for other different agencies. All of them influenced the German agency in different ways. They provided it with several changes and improvement and allowed it to expand. Among all those companies acquired, merged or collaborating with Scholz & Friends, there are multiple important ones such as gkk Group, Red Cell, etc.

The main business of Scholz & Friends' classic advertising program is handled in the offices in Hamburg and Berlin and in the international bureaux in 18 other countries. After 1992, the year they opened their office in Berlin, in 1995 Scholz & Friends opened its first offices outside Germany, in Athens, Madrid and other European cities. It developed so fast to easily become the first German communications agency to establish offices present almost all over Europe.

Its merger with United Visions, an important entertainment production company, in 2001, added important specialist field to Scholz & Friends' range of capabilities: The one of the entertainment. In fact, from this process three different companies arose. They were part of the company, but they still kept working in an independent way for their own customers.

The first one is **Factual Films** (Berlin), a broadcaster-independent media company. The agency focuses on producing and marketing TV magazine programs, documentaries, reports etc. Many of its works are also very famous and important like for example the introduction to the media world of the Mercedes-Benz CLK Convertible. Scholz & Friends benefited a lot from the presence of this company as part of it. This because, Factual Films, is highly developed in the journalist field and helped the German company to create several different programming ideas for their clients. For example, for the 50th anniversary of the State of Baden-Württemberg, TV segments were realized thanks to this collaboration with Factual Firms.

Live Line Entertainment, whose offices are placed in Wiesbaden/Eltville, is the second agency created. This agency instead helped Scholz & Friends in improving its capabilities by focusing on the development and production of mass-market TV programs mainly specialized in events, linking brand messages to entertaining content. Live Line Entertainment took care of the New Year's Eve celebrations at Berlin's Brandenburg Gate creating a communication platform for Deutsche Post AG. Brands such as Bitburger beer and Rotkäppchen sparkling wine also tied their messages to this successful event. (*Scholz & Friends – The Orchestra of Ideas*)

Finally, the third and last company created from the merger with United Visions is **United Vision Interactive Entertainment** based in Berlin. In this case, Scholz & Friends benefited taking from this company their ability to develop interactive online and offline entertainment formats and the K1010.de game show portal, a website for downloading apps, is a clear example. Thanks to this agency, Scholz & Friends had been able improve its focus on creating tailor-made products thus to attract more and more customers. Moreover, it was also possible for the German company to serve specific group segments.

After this introduction in the world of the entertainment, the company started enjoying better results. The expansion into new fields might be considered as a successful market strategy for Scholz & Friends. Moreover, even without these new capabilities introduced in the German company's portfolio, it still continued to be the top German communication business. This was the first one offering both push and pull disciplines at the same time, and this represented for the German company an important advantage over its competitors that led them be winners. Thanks to these new acquisitions, also intra – network cooperation became better for Scholz & Friends' clients. Scholz & Friends provided at adding more pull disciplines to its portfolio in 2002, getting so successfully to the point of increasing and completing the range of non-classic communication instruments.

2002 was the year in which, Scholz & Friends thanks to its acquisition and collaboration modified most its range of capabilities. First of all, among all of the agencies acquired, it is important to name the Parisian one: **Allieurs Exactement**.

The acquisition was performed in two steps. First, S&F acquired a stake of 10 percent making so Ailleurs Exactment become the associate and, in the year after, the investment will be increased to 51 percent becoming so a real and proper subsidiary of the company.

After its management buyout, Scholz & Friends had around 10 million euros available for purchases. Its choice for a further investment fell on the Parisian agency Ailleurs Exactement, which is one of the top 20 in France and works for clients such as Honda, Arte and Attac. These two agencies did share some common customers such as Hapag-Lloyd Express, the Goethe Institute and Oxford.

After having left the perimeters of Havas, in June 2002, French agency's leaders Jean-Pierre and Evelyn Chebassier Soum started smiling again. They benefited a lot from this acquisition mainly because, by having left 10% of their shares to the German agency Scholz & Friends, they posed a new stone in their 'building' and sealed an alliance that should ensure them International Development. Already, some of their clients are international (PaperMate) or present outside France (Atac Poland). They will benefit from a strong presence of Scholz & Friends - who works including AOL, Coca-Cola, DaimlerChrysler, Jil Sander, RTL and cigarettes West- throughout continental Europe and to Russia and in London.

At the same time, Thomas Heilmann, co-chair of the German agency relied a lot on the idea to develop in France since it represents a market where it was virtually absent. The antenna of Scholz & Friends in Paris (opened in 1999) passes under the flag Ailleurs Exactment. The agreement included a gradual rise of Scholz & Friends capital to Ailleurs Exactment and, conversely, the participation of Jean-Pierre Chebassier and Evelyn Soum to the"management buyout" (MBO) mounted by managers of Scholz & Friends with the aid of the Electra funds in July 2003, to be out of Cordiant control.

A part from MBO, these two agencies have other common points. Soum and Evelyn and Thomas Heilmann repeatedly stressed the idea of "consistent positioning"

(independence, collegiality management, integration of business) between their agencies, and to the " sharing of entrepreneurial culture". The collaboration between these two agencies led Scholz & Friends to benefit from it mainly for one important reason: Together they developed on cross trade communications.

Still in the same year, further modifications were introduced for the agency. In this case, changes for the German company were not due to the acquisition of another agency that improved their activity level, but rather to internal changes of a recently owned subsidiary. In fact, Scholz & Friends, had recently took under its guard an event agency named '**Light Monuments GmBH'** whose offices where based in Berlin.

The arrival of a new well-known light artist, Gart Hof, to this agency brought Scholz & Friends to enjoy from the recent acquisition of this agency and to experience numerous important modifications. Its clients where provided with astonishing effects such as: lasers, helium balloons, fireworks etc. His special effects captured the attention of millions of people worldwide, keeping them stocked in front of the TV. Thanks to Hof, the first foreigner able to directing a state ceremony in China and also staging very important events in other European Countries. He, joining the German group, meant that the company was going to experience a new way to communicate its message all over the world in an emotional way.

An example of the consequences of Hof presence in the German agency is the event that took place 7 December 2002: "*Dresden leuchtet wieder*". The event was thought to increase public's consideration of the German city after the catastrophic floods of the previous years. Moreover, it was aimed at providing a positive signal of change to tourists visiting and investors starting their own business in Dresden. Deutsche Bank and many other sponsors financed the event. This event perfectly suited with what said before about Hof contribution to Scholz & Friends. It, indeed, was presented worldwide and sensitize millions of people to this argument all over the world.

Last remarkable changes in 2002 occurred after **Scholz & Friends Sensai** became part of the parent company (Berlin). This new agency provided to improve the range of disciplines of Scholz & Friends by developing communication- and participation-oriented concepts in order to introduce companies and brands to the public during events such as trade fairs, exhibitions etc. It changed Scholz & Friends way to do advertising, since it added to it a three-dimensional experience. This means that Scholz & Friends, now, does not deal only with the classic advertising or the entertainment, but that it also take part in the market for real and proper participatory experiences. This means that it also aims at sponsoring and promoting clients' products   on   point   sales. The benefits this agency brought to the German company have been way noticeable since the first months and allowed the holding company to acquire and realize projects for clients of the importance of Boston Consulting Group.

Three are the agencies under Scholz & Friends control allowing the company to meet its demand for PR services. Each one of these agencies has a profile created to satisfy particular client requirements.

1. **Scholz & Friends Agenda (Berlin):** This one filled the gap of what was missing for the parent company by combining the traditional PR with a much more specific expertise in multi-channel communication and agenda-setting. Especially this last one deals with the way helped in improving creation of a campaign by developing new ways of communicating from which the company can feed. Several instruments, such as press relation, are mainly used for the purpose of creating public consciousness of a problem thus to increase the length of the effect of other channels of communication such as advertising. For example, Scholz & Friends Agenda's work for the Initiative Neue Soziale Marktwirtschaft (New Social Market Economy Initiative), which, with the help of many high-profile advocates, underlined the necessity of comprehensive reforms and submitted concrete proposals. Media cooperations for Hapag-Lloyd Express had the aim, among others, of presenting unusual reasons for spontaneous short-haul flights in the press,

thereby readying the public for the destinations and low prices that the new airline offers. (*Scholz & Friends – The Orchestra of Ideas*)

2. **Plato Kommunikation (Berlin***):* Control over this agency improved the performances of Scholz & Friends in the field of the political communication and publicrelations consultancy. For what concerns the political communication it provides services dealing with monitoring and appraisal of planned registration by letting decision-makers in ministries and political parties discuss and by developing media strategies for political and social policy topics. For what regards the PR point of view, Scholz & Friends benefited from the support given by Plato to its clients concerning classic press relations the production of presentations and image brochures. Moreover, it advises companies, associations and ministries on internal communication; devises websites; and organizes conferences, panel discussions and roundtable meetings*. (Scholz & Friends – The Orchestra of Ideas*)

3. **Scholz & Friends Brand Affairs:** the agency is based in Germany, Hamburg, and outside it both in Budapest and in Asia, specifically Beijing. This agency increases Scholz & Friends capabilities in offering promotion, events and sponsoring. This is one of the first agencies owned by Scholz & Friends that does not only operate in Germany, but also in other European and Asian countries. This company focused on internationalize as much as possible thus to respect one of the four booster imposed by the parent company. After the opening of the first office in 2001 in Hamburg, in January 2002, Scholz & Friends Brand Affairs opened a branch in Beijing to study the Chinese market for German companies, and since February 2002 it opened an office in Budapest. This company has in its portfolio several top clients such as Mercedes-Benz and Buena Vista International. Mainly this agency deals with the realization and management of brands under the event and sponsoring point of view. One of the most known and

important success is for example the 'Chio Kick 2002'. It is an event set up with the aim to create a connection between the young, trend-conscious target group and the brand.

Scholz & Friends' presence in Hamburg increased a lot after the takeover of deepblue **networks AG.** This agency, created in 2000 whose shareholders is Scholz & Friends, deals with expertise both in above- and below-the-line communication. Thanks to its excellent digital media capabilities, after its acquisition, this agency easily gained the position of leading agency for several different companies' brand communication within the group. A significant example might be represented by West, whose communication program is handled only by deepblue network; the only responsible. This brand has been looked after by Scholz & Friends for years, and thanks to the acquisition of this communication agency, it has been able to acquire it as a client. Deepblue networks' provided the German company also with other important clients such Universal Music, "Diddl – die Springmaus" for Depesche, and Nordzucker.

Scholz & Friends NeuMarkt (Hamburg) and Scholz & Friends Consulting are two other important agencies affecting the parent company activities. The first one mostly deals with retail clients by handling the packaging design or magazine and point of sales, TV and the Internet. An example of the work made by this agency is the creation of the non- food segment marketing of Tchibo.

Scholz & Friends Consulting, placed in Berlin, instead, deals with all of the consulting tasks of the company. It advises clients about the process of brand management prior to communication and establish which ones are the strengths and the weaknesses of a brand by making an analysis of the company, its competition and targeted group. Once the customer and industry analysis has been made, it has to determine which one is the best position for the company with respect to its competitors in the same field and the develop a strategy for communicating the product to the customers. At the moment of translating the result into reality; this means implementing them, acollaboration between the network's classic and specialist agencies and consultants begins. An example fot Scholz & Friends might

be the conduction of a comprehensive brand study for Liechtenstein Global Trust. In this case Scholz & Friends Consulting dealt with the part of choosing the name, positioning and communication strategy, cooperating with Scholz & Friends Berlin to a create a specialist and classic campaign in for the private banking brand LGT Bank in Liechtenstein.

gkk Group was acquired by the German company in 2007 leading so the company to increase its companies' portfolio. This acquisition has a significance importance both for Scholz & Friends and for Germany; in fact, it is one of the most outstanding results in Germany's marketing agency sector. On one side we have Germany's leading owner-managed dialogue agencies, on the other side Germany's largest independent advertising and marketing groups *(Scholz & Friends to acquire gkk Dialogue group - BusinessWire, 2007)*. gkk had a turnover of 19.1 million euros (2006) and 450 employees; its ranking among the German owner-managed communications service providers, in 2006, at the time of the acquisition, was number 7.

This relationship between S&F and gkk had already started in 2005, when the two parts were tied by a joint venture whose name was Scholz & Friends Dialog Group. After the positive outcomes achieved from this agreement, both of the agencies agreed on strengthening the relationship by completing an acquisition. Scholz & Friends accepted, subject to the approval of the Federal Cartel Office, to buy 100% of the Frankfurt agency gkk Dialog Group. This acquisition built up Scholz & Friends competencies, especially in the dialogue-marketing field. It allowed the German agency to improve in telemarketing and CRM, all significant aspects of the industry.

According to the German company's CEO, Frank-Michael Schmidt, this acquisition consolidates the current strategic development the communications group, which is going to become a comprehensive marketing services network. About this agreement, CEO also added:

> "We are now ready to face a future in which individualisation, measurability, efficiency and the establishment of a link between communication and transaction will prove to be essential success

parameters." *(Scholz & Friends to acquire gkk Dialogue group - BusinessWire, 2007).*

The acquisition of gkk improved also Scholz & Friends' ability to penetrate into growing national and international markets. Moreover it increases the area of services provided and counseling skills. Thanks to this collaboration, Scholz & Friends can only be advantaged in improving the path started continuing its growing strategy. With this agreement the company now wants to expand the group communication strategically to a comprehensive "Marketing Services Network" Scholz & Friends. In the gkk there is instead, except for the change of ownership, no change in management. Company's founders Robert Gräßler, Harald Kling and Wolfgang Krug continued to be responsible for the operational business after the acquisition. All of the employees remained on board at the headquarters, which kept staying in Frankfurt and in its other offices in Munich, Bremen and Hannover.

Some of the characteristics of the German agency, especially those of 'Scholz & Friends Hamburg' are shaped by another important collaboration, the one with **RedCell,** an advertising agency founded in 1972 as HSR & S and known as red cell since 2001, that merged with Scholz & Friends in 2010. The company created from this merging started developing their own business expanding in Düsseldorf under the name 'Scholz & Friends' Dusseldorf. All of the employees of the RedCell started working for this new agency and the two companies kept holding their own executive board and they were managed by Scholz & Friends' managers Kai Panitzki, Brigitte Fox and Chairman Frank Dopheide and the red cell managers Siegbert Bartusek, Stefan overseer and Harald Haas. Red cell provided to the company a full range of expertise, specialized departments for communication and interactive advertising.

This new opening in Düsseldorf office led the company to conquer a base in another important German city in addition to Hamburg and Berlin and thanks to its success there, it started growing becoming so the third major German location.

This cooperation had a double effect: On one side it helped the agency to play an even more active role in Germany's most important economic region and consolidate their position there. On the other side, the agency had access to the full expertise of the national and international network. They are given the possibility to serve companies internationally from the German locations also thanks to the means of WPP, of which both of the agencies are subsidiaries.

Thanks to this merger, a significant improvement in the work of the executives in client groups and in the culture of generating creative ideas was noticed.
Moreover, it led to an increase and an improvement of the services provided by the agency including classic advertising or digital and social media. Scholz & Friends gained from this collaboration clients of great importance to share with RedCell, such as Aperol, DHL, Pokerstars an Reinert Privat Fleischerei in addition to its own ones: DB Bahn, Müller, Siemens etc.

Scholz & Friends continuously keep focusing on both consolidating and extending its international network. This process includes different steps to be considered in order to carry on this internationalization process. Scholz and Friends' first aim for the future is its decision to extend and strengthen its coverage of the European market. The expansion is considered both in terms of acquisition of new companies useful to improve more and more the range of capabilities, or just through the opening new branches abroad.

CONCLUSIONS

This thesis aimed at providing an overview and an explanation of the relationship between headquarters and subsidiaries both in a general and in a more specific way by deeply analyzing the 'Scholz & Friends case'.

Because of its recent history and development, there are no enough sources on this topic. For this reason I tried to analyze as many sources possible with the aim of providing a clear vision of this little known phenomenon. According to my research, it came out that the relationship between headquarters and subsidiaries is controlled by several factors such as size of the subsidiary, involvement in the foreign countries etc. Each one of these variables has an important effect on the behavior of these two actors, influencing it in their capacity of control and coordination.

It has also been clear that several different methods of handling this relationship have been developed over the years; each one leading to better results and related to new findings or changes hitting the industry. This work proved that even though this relationship is little studied, over the years, it improved leading to significant changes both on the subsidiary and the parent company point of view. Scholz & Friends, the agency taken as example, showed how, over the years, thanks to the different acquisitions and the different control and coordination mechanisms used, the company has been able to improve and to manage this headquarter-subsidiary relationship in a much more profitable way.

First of all, Scholz & Friends proved to benefit both from being acquired by a superior company like WPP and from acquiring smaller companies. This because, in the first case, it enjoyed the instruments, knowledge and the experience provided by the acquiring companies. In the second case, instead, it has been able to capture those agencies whose capabilities were missing to Scholz & Friends and, in this way, it achieved to enter into new markets by, at the same time, improving its previous competencies. Moreover, because of this relationship with agencies of different kind, Scholz & Friends has been able to differentiate as proven by its openness to the development in the communication field in addition to the advertising one.

In my opinion, starting from this study and especially after the analysis made on the Scholz & Friends case, there are many chances for this relationship to lead to greater and greater results in the future. This thesis proved that there has been a big improvement in the development of this relationship thanks both to the role played by the two actors and the external factors. On one side, in fact, year after year, parent companies learnt how to deal with their subsidiaries in achieving their best final outcome, on the other side the external factors such as new discoveries allowed the company to improve and specialize in other fields thus to be operative on different sides. For this reason, according to me, the continuous development in technologies and communications will push the agencies to find and use more and more instruments and will also allow them to modify and improve their control and coordination over the subsidiaries thus to obtain the greatest results possible.

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