



## MERGER ACTIVITY IN THE ADVERTISING INDUSTRY

by

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## ABSTRACT

This thesis presents a short history of merger activity among advertising agencies. Statistical data has been collected on the number of mergers that occurred in selected years between 1950 and 1978. Three periods of heightened merger activity appear to have occurred within this 28 year span. These merger waves will be discussed with regard to possible environmental factors which may have influenced their occurrence. Additionally, motives often voiced in support of ad agency mergers will be discussed with regard to their plausibility.

Finally, a statistical analysis of possible economies of scale will be presented. Data relating the number of employees in an ad agency with the gross income of the agency appear to demonstrate that large agencies are able to use fewer employees per given dollar of business as compared to smaller agencies.

Thesis Supervisor: Al Silk

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I would like to thank Professor Silk for suggesting this topic to me when all other alternatives appeared exceptionally tedious. Professor Schmalensee also deserves thanks for lending his valuable insight on economic interpretations of statistical data.

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## CHAPTER 1

## INTRODUCTION

Since the mid-1970's, the business media have increasingly drawn attention to what many observers believe is a wave of mergers among advertising agencies. In some respects, Business Week appears to have initiated this focus of attention when it published an article in June, 1974 covering the string of six acquisitions which Young and Rubicam had recently completed.<sup>1\*</sup> Since then, the attention has increased each year. In 1978, Charles Peebler of Bozell and Jacobs International provided one measure of the magnitude of this merger wave when he stated:

Of the 92 biggest ad agencies in 1968, fully 41 have either gone out of business or have been absorbed.<sup>2</sup>

This thesis investigates the premise that a merger wave is taking place among advertising agencies. First to be examined is the period from 1950 through 1978: how frequently did ad agency mergers occur during that time? Four separate periods of heightened merger activity have been identified and will be discussed (in Section 3.0) with regard to the factors that contributed to each merger wave.

In addition to these periods of heightened activity, mergers have been found to occur regularly and many of the reasons advanced as motives for mergers appear to be common to all eras of merger activity. These will be discussed in Section 4.0 of this report.

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\* Offset numerals indicate endnotes at back of thesis.

Finally, economies of scale are almost always mentioned as a motive for ad agency mergers. Section 5.0 of this report will analyze agency statistical data on number of employees, gross income, billings, etc. for the appearance of scale effects across a sampling of ad agencies.

While doing research, the author of this report contacted via telephone an executive actively involved in the advertising industry. He was asked if he had any thoughts on the recent wave of mergers taking place among agencies. In a somewhat worried voice, the executive replied that he had not heard of any such occurrences at any time during his career. When the mystified author mentioned the many recent articles that have appeared in Advertising Age and Fortune, the executive replied in a relieved voice: "Oh, mergers — I thought you were investigating a wave of murders."

I wish to announce that I have discovered no evidence of a wave of murders in the advertising industry.

## CHAPTER 2

## A SHORT HISTORY OF THE ADVERTISING AGENCY

It is reported that the British Empire gave birth to the first advertising agency when Reynell and Son was founded in London in 1812. In contrast, the United States had to wait till 1838, when its first advertising agency was founded by Volney B. Palmer in Philadelphia.<sup>3</sup> One view holds that the emergence of agencies in the mid-1800's was a natural result of the introduction of mass circulation periodicals in this same period.<sup>4</sup> This opened the way for large-scale advertising and thus created the opportunity for agencies to operate as media space brokers.

A graph of U.S. advertising expenditures (Figure 2-1) for the period from 1776 to 1905 does indeed show that the appearance of agencies in the mid-1800's coincided with the sudden increase in ad expenditures. As in any growth industry, the sudden appearance of new market potential induced individuals to enter and exploit it.

Initially ad agencies acted as space brokers for publishers and were viewed primarily as agents of the media. Agencies sold space to individual advertisers, and the agent in turn was paid a commission by the media. In some instances, publishers designated a favored agent who alone would be responsible for securing their advertisements.

From this early start as an agent of the media, ad agencies have now reversed the relationship and are presently viewed as operating primarily in the interests of the advertiser — not the media. Agency functions have expanded beyond media space buying to include copywriting, art layout, market research, public relations and other assorted functions that

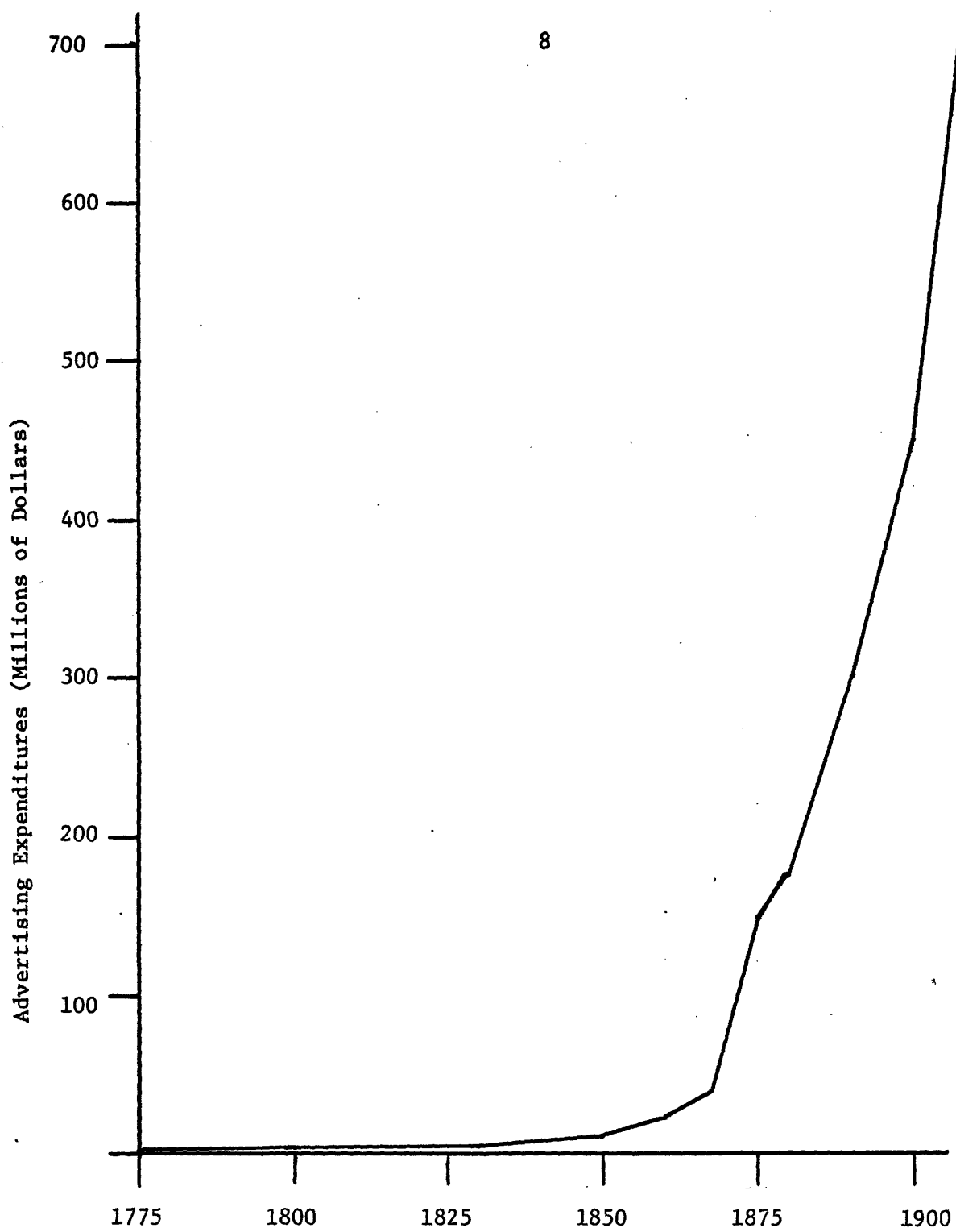


Figure 2.1. U.S. Advertising Expenditures



in many instances allow the agency to operate as the marketing branch of the advertiser.

From its start, the U.S. ad agency industry has grown to include approximately 7000 agency establishments as of 1979.<sup>5</sup> One estimate places total U.S. advertising expenditures at 48.5 billion dollars in 1979, which is more than \$200 for every U.S. citizen. About 21.9 billion of this is funneled through advertising agencies, which realized approximately 3.4 billion dollars as gross income for 1979.<sup>6</sup>

Figure 2-2 shows that billings (corrected for inflation) per ad agency establishment generally increased throughout the last three decades. However, Figure 2-3 demonstrates that growth in the number of agencies has decreased since the early 1960's. These two facts could indicate that entry into the industry has become more difficult or that firms are merging faster than new ones are created. One result of either of these possibilities could be an increasingly concentrated ad agency industry. Figure 2-4, however, shows that the percent of aggregate U.S. billings controlled by the ten largest U.S. agencies has not significantly varied over the previous three decades. Thus a trend toward an increasingly concentrated industry (resulting from mergers or other effects) is not immediately apparent.

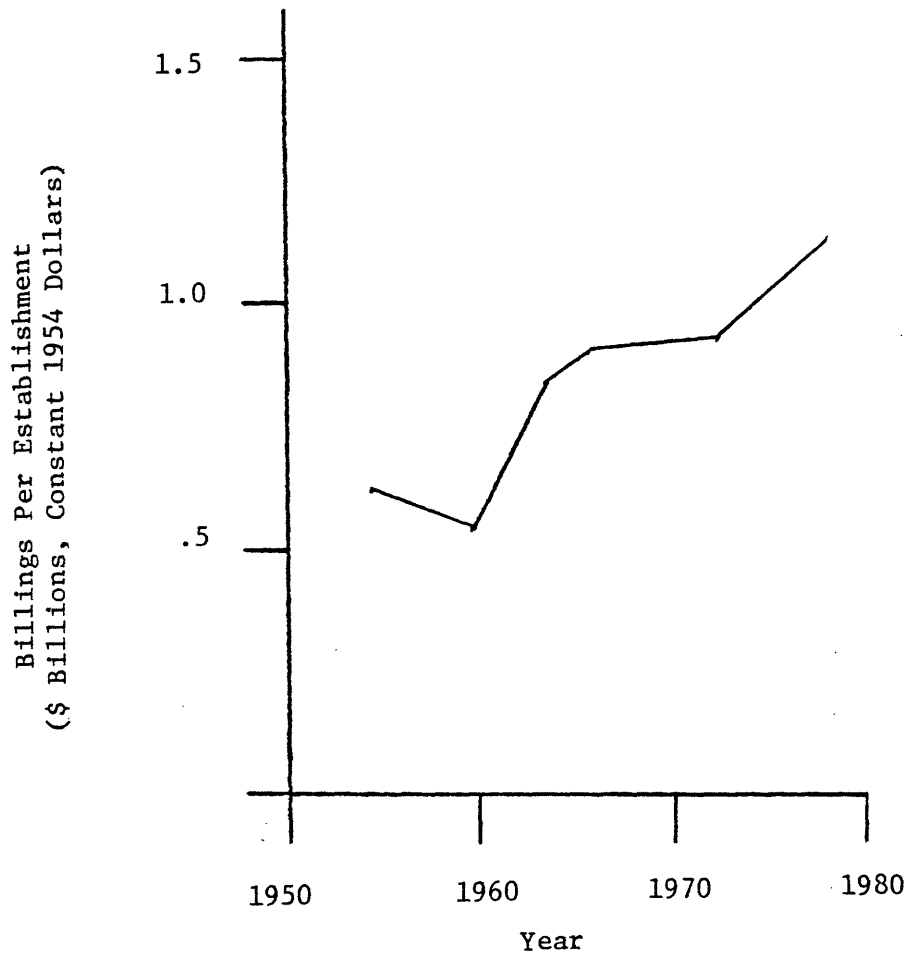


Figure 2-2. Billings Per Ad Agency Establishment\*

\* This was calculated by dividing total receipts for all ad agencies by the total number of ad agency establishments as provided by the Census of Business (U.S. Government Printing Office).

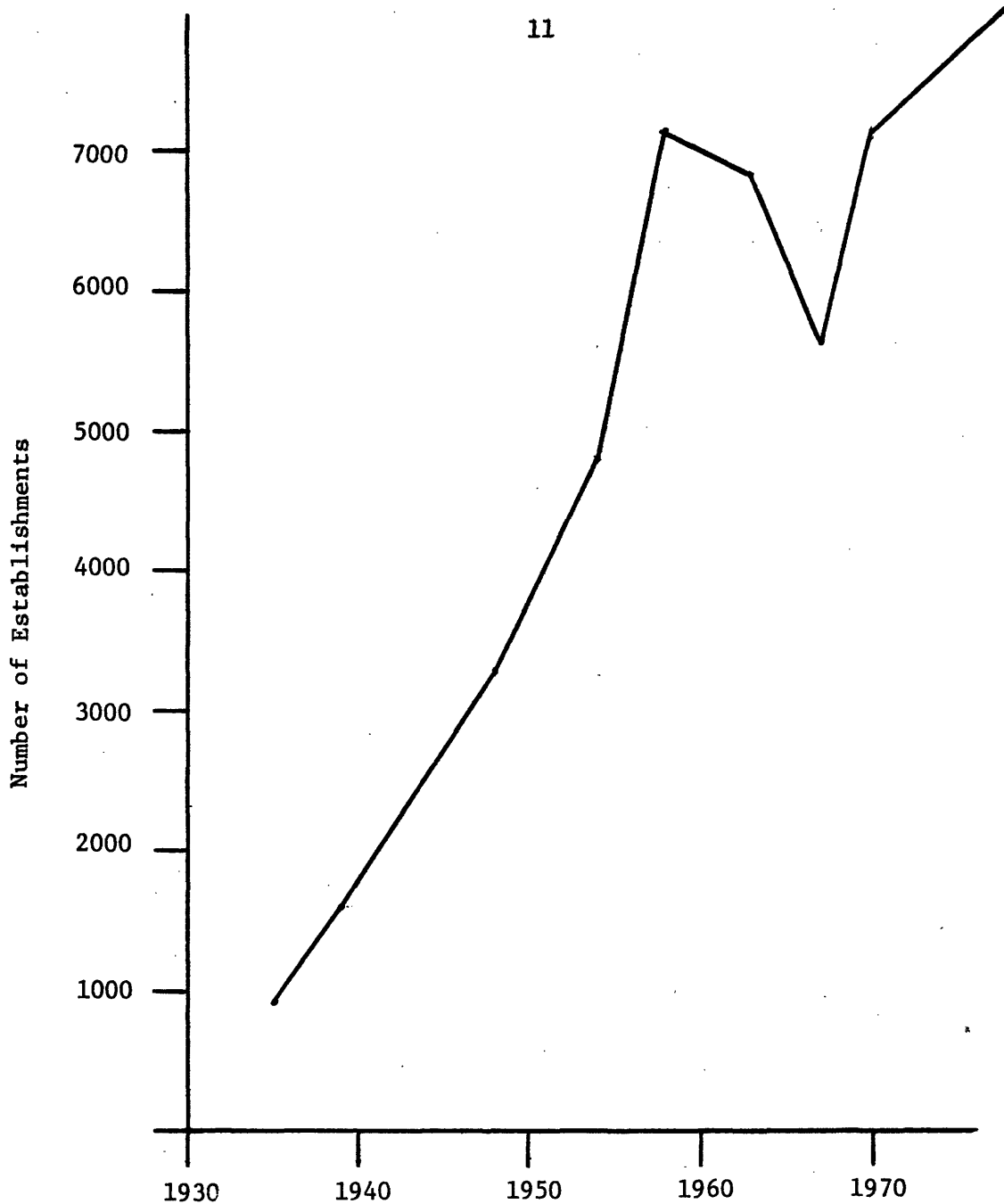


Figure 2-3. Total Number of Advertising Agency Establishments in the U.S.

Data taken from the Census of Business (U.S. Government Printing Office)

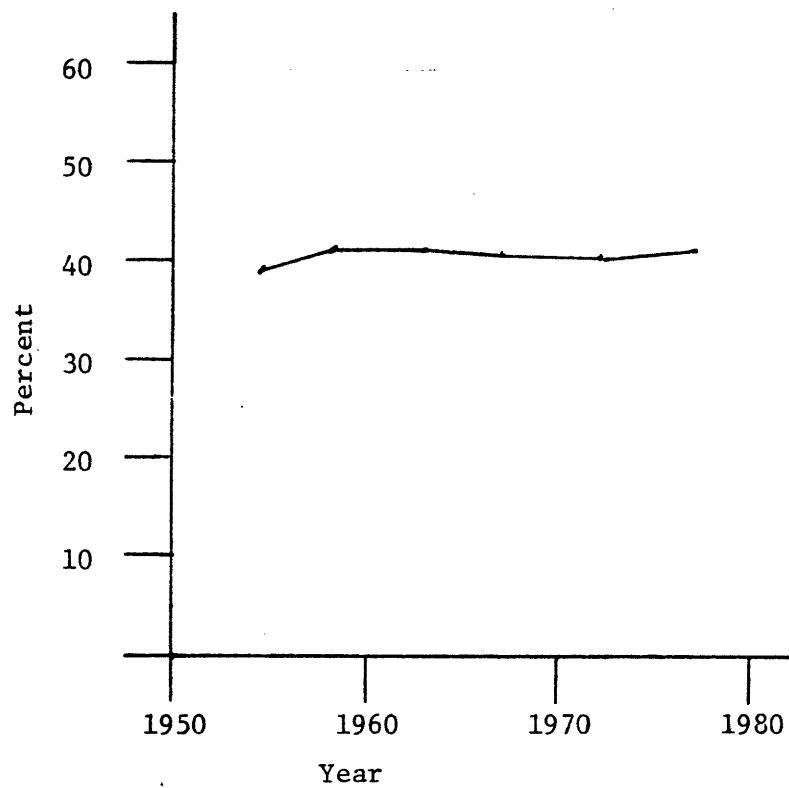


Figure 2-4. Percent of total US Ad Agency Billings Controlled by the Ten Largest U.S. Agencies \*\*

\*\* Calculated from data supplied by Advertising Age in its annual issue on the top 100 ad agencies and the Census of Business.

## CHAPTER 3

## HISTORICAL ANALYSIS OF AGENCY MERGERS

3.1 Merger Data Sources

One prime objective of this report was to determine if indeed a merger wave is presently occurring among advertising agencies, and if there have been other merger waves in the past. In this light, I set out to assemble a merger time series for ad agencies covering the period from 1950 through the 1970's. It was soon discovered that no single source of such data exists and that bits of data had to be collected from many periodicals, as listed in Table 3-1.

Table 3-1. Sources for Ad Agency Merger Announcements

F&S Index of Corporate Change  
Advertising Age  
Business Periodicals Index  
Business Week  
Fortune  
Media Decisions  
New York Times  
Printer's Ink  
Wall Street Journal

For the period from 1971 onward, F&S Index of Corporate Change provides the most comprehensive source of merger data, and is categorized by SIC number. In its initial issues (1971 & 1972), it provided partial billings information along with an indication as to whether the merger had been completed. In later issues, it has ceased publishing such detailed information, and provides only page and date references to trade press articles pertaining to merger announcements. The completion of a merger

given its announcement, is not a foregone conclusion. During the data search, it appeared that a large percentage of announced mergers are either never completed or are broken apart within several months of their initial consolidation. Confirmation of completion was at times difficult to locate since the trade press appears more interested in reporting merger announcements than cessation of merger talks. The most reliable source for confirmation, however, was found to be the Standard Directory of Advertising Agencies where the merged agencies would disappear as separate entities and reappear as a newly named agency.

The Business Periodicals Index (BPI) falls next in usefulness as a source of merger data. The BPI appears to have begun indexing ad agency merger articles in 1947 as a separate "consolidation" section under "advertising agency". However the indexing is not as thorough as F&S Index of Corporate Change and severely under-reports merger related articles for the period of the 1950's. For this period, a manual search of Printers Ink and Advertising Age proved to be the most reliable means of collecting data. These two publications appear to be the ones most attentive to ad agency mergers and provided the bulk of the merger data presented in this thesis. Neither of these publications appear to issue an index of articles. Advertising Age does provide a computerized search of its previous issues through its corporate library in Chicago. For a \$50 fee, a search of a two year period using one keyword as an index can be made. However, Advertising Age does not guarantee the thoroughness of the index nor if articles are indexed under a user designated keyword. The only way to determine this is to perform a search which entails the payment of the fee.

The New York Times and Wall Street Journal do publish yearly indexes but they were found to contain few articles on ad agency mergers. Business Week, Fortune and Media Decisions do not have yearly indexes but each did occasionally publish merger related articles which were very informative. These articles were located primarily through use of the BPI.

In an effort to collect merger data in a consistent manner for each year, it was decided to collect merger statistics in intervals of four years for the period between 1950 and 1970. For the 1970's, data was collected in intervals of two years. F&S Index of Corporate Change, Printer's Ink and Advertising Age were the primary sources of merger announcements. Appendix A lists the merger data in detail while Figure 3-1 presents in graphical form the number of completed ad agency mergers in a given year.

Agency billings data was also collected for each merger and this information is also included in Appendix A. However, billings data are not always provided when a merger is announced, and a standard source of this data did not become available until the mid-1960's. At that time, the Standard Directory of Advertising Agencies began including it on a regular basis.<sup>7</sup>

At this point, a note of caution must be made with regard to the merger data series. It was noted during the data search that all publications such as Advertising Age went through cycles of attentiveness or inattentiveness to agency merger announcements. This suspicion was strengthened by the fact that periodicals would occasionally dedicate lengthy articles to discussion of a wave of mergers but that not all periodicals picked up on the same merger waves. Very often, mergers that were reported in Printer's Ink, for example, would go unnoticed in Advertising Age — and vice versa.



Figure 3-1. Number of Completed Mergers Among Ad Agencies



A second factor affecting the data is that periodicals would become increasingly attentive to merger announcements as more mergers were announced. For example, in the peak year of 1958, Advertising Age devoted page after page to merger data and at year's end summarized in one issue all mergers that had occurred in that one year. Just two years later, in the 60's, little attention was given to mergers. I suspect that at that time data was being underreported in comparison to 1958.

Lastly, there is probably a strong bias among the periodicals toward publicizing only those mergers involving the larger agencies, which may be of greater interest to readers. In one respect, this is not a serious problem since the larger agencies control the bulk of the billings—the top ten control approximately 40%. However, there are most probably many small agency mergers taking place each year that do not receive publicity and, as a result, which do not appear in this report's data series.

At this point, a positive note appears in order. The ebb and flow of attention directed at agency mergers by periodicals most probably accentuates the size of merger waves by underreporting mergers during quiet periods. Nevertheless, what the press perceives as newsworthy tends to reflect what is actually occurring. Thus what appears to have been a merger wave in the late 1950's (Figure 3-1) was probably just that. However, its relative size may be accentuated.

### 3.2 Merger Time Series (1950-1978)

Figure 3-1 summarizes the merger data collected for this thesis. A brief glance at Figure 3-1 indicates that a merger wave did occur in the late 1950's, while the 1960's were relatively quiet. By 1974, however, merger activity appears to have increased again with the trend continuing

into the last half of the 1970's. It must be mentioned that these statistics cover mergers between domestic U.S. agencies and do not include foreign acquisitions.

A second way of viewing the merger data is the total amount of agency billings involved in the mergers in any given year. As mentioned earlier, billings data could not generally be located for the period of the 1950's, but Figure 3-2 does plot the total amount of known billings involved in agency mergers for the 1960's and 1970's. As presented, Figure 3-2 is a little deceptive, however. Inflation of media prices plus growth in the number of advertising messages has increased the magnitude of total U.S. advertising expenditures throughout the 1960's and 1970's. This growth effect tends to mask what may or may not be a trend toward mergers involving a larger share of the ad agency market. Figure 3-3 attempts to correct for this by deflating the merged billings data for each year with a weighting factor calculated as shown below. The result as shown in Figure 3-3 is that a merger wave still appears to be taking place, with the trend being toward a larger percentage of industry billings involved in mergers.

$$B_{62} = \text{total U.S. ad expenditures in 1962}$$

$$B_i = \text{total U.S. ad expenditure in year } i$$

$$\text{weight factor}^{**} = \frac{B_i}{B_{62}}$$

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\*\* The data points on Figure 3-3 were calculated by multiplying the data points on Figure 3-2 by the weighting factor calculated above.

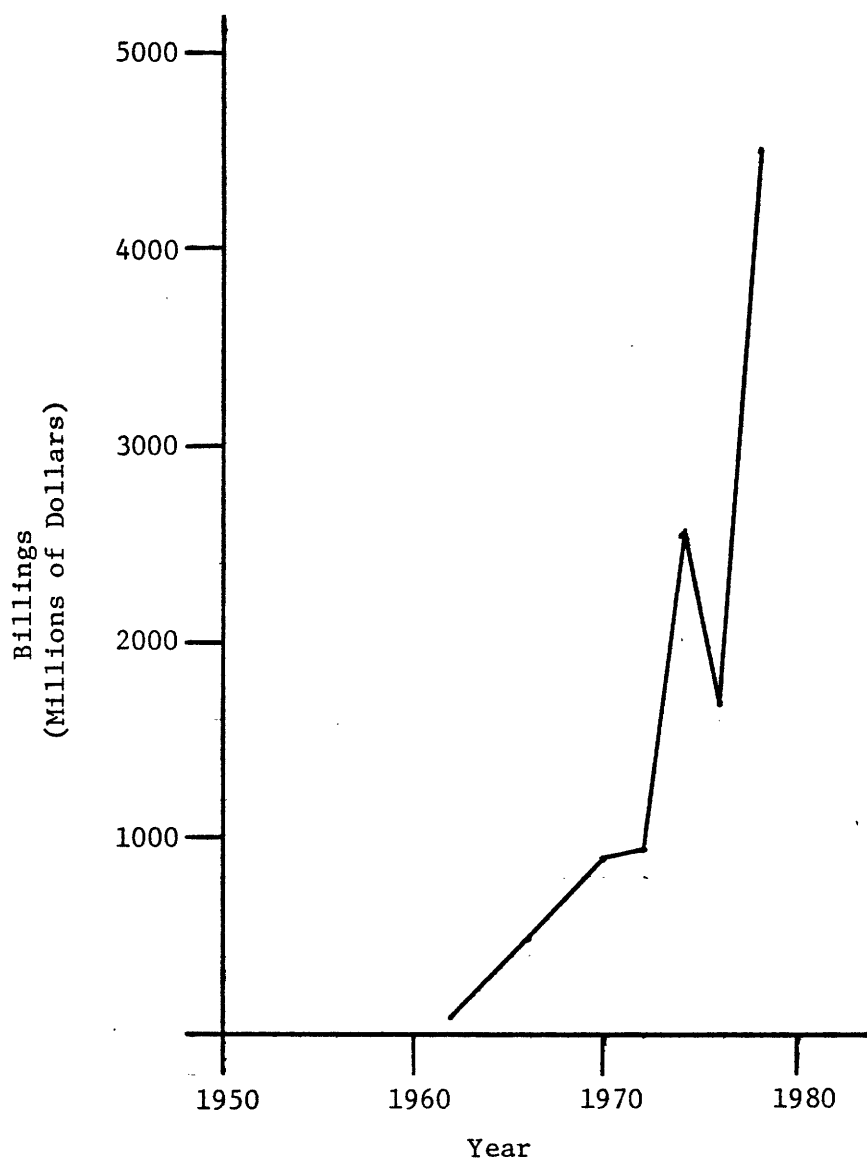


Figure 3-2. Total Known Billings Involved In Agency Mergers

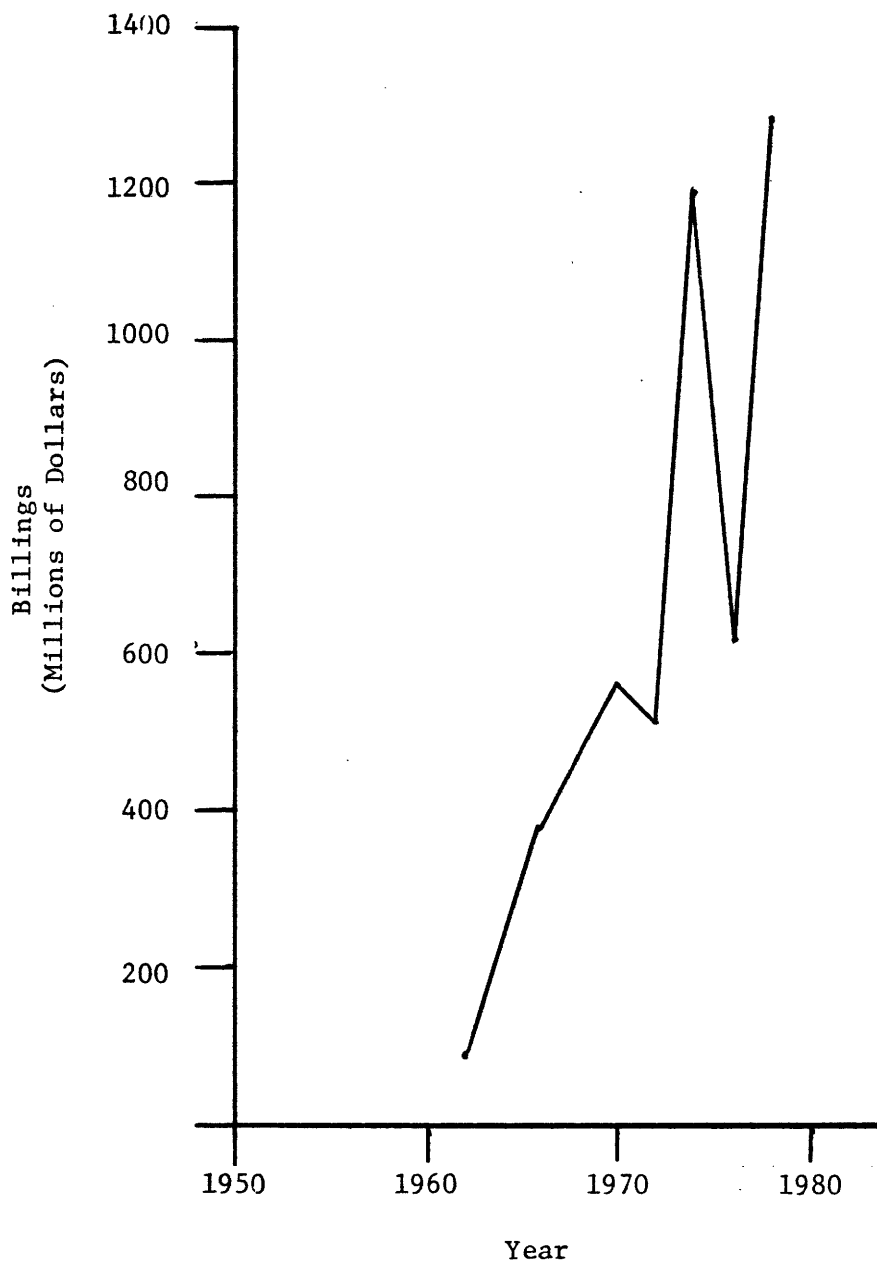


Figure 3-3. Total Known Billings Involved In Agency Mergers Weighted by the Factor as Shown on Page 18

One last measure of merger activity was performed by calculating the ratio of the billings size of the larger agency to the billings size of the smaller agency with which it merged. This calculation was performed for each individual merger. The geometric mean and median of these individual ratios were then calculated for each year and the results graphed in Figure 3-4. This was done to determine if there is a trend toward mergers between agencies of equal or unequal sizes. Unfortunately the data on Figure 3-4 bounces about sufficiently to preclude the observation of any such trend. Of course, it could simply be that no such systematic trend exists. However, Figure 3-5 graphs the arithmetic average of billings involved per individual merger for each year, and here there does appear to be a trend toward much larger billings per merger. Figure 3-5 does correct for growth in total U.S. ad expenditures as was done for Figure 3-3.

### 3.3 Comparison with Aggregate U.S. Merger Statistics

Before diving into the details of the mergers that have taken place among advertising agencies, one is tempted to examine briefly what economists have been able to learn about aggregate merger activity in the U.S. and how it might relate to ad agencies. Merger historians have often noted that the aggregate level of merger activity in the U.S. has been highly cyclical, with peaks of activity in 1899, 1929, and 1969, as shown in Figure 3-8. This apparent periodicity has led to suspicion that some group of environmental factors might be causing the appearance of these merger waves. However, such factors have not been reliably identified and researchers have become skeptical that a single force is causing the peaks.<sup>9</sup>

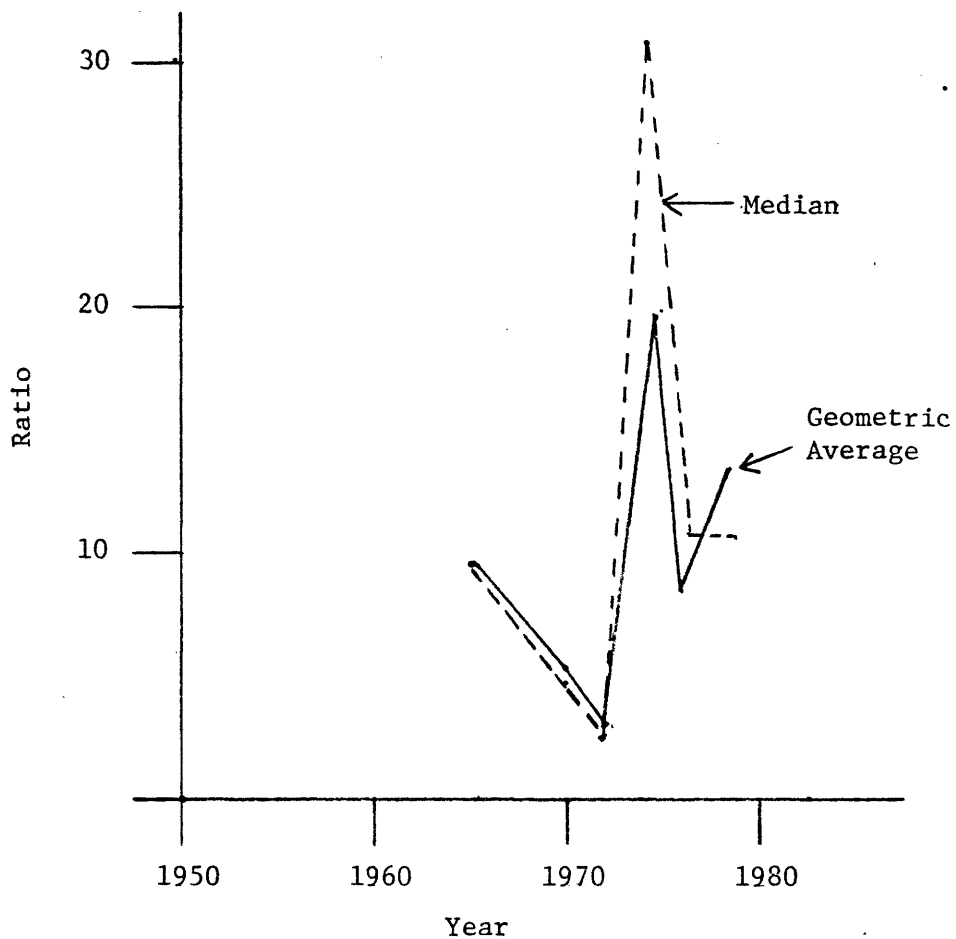


Figure 3-4. The Median and Geometric Average of the Ratio of Larger Agency Billings to Smaller Agency billings Per Merge in a Given Year

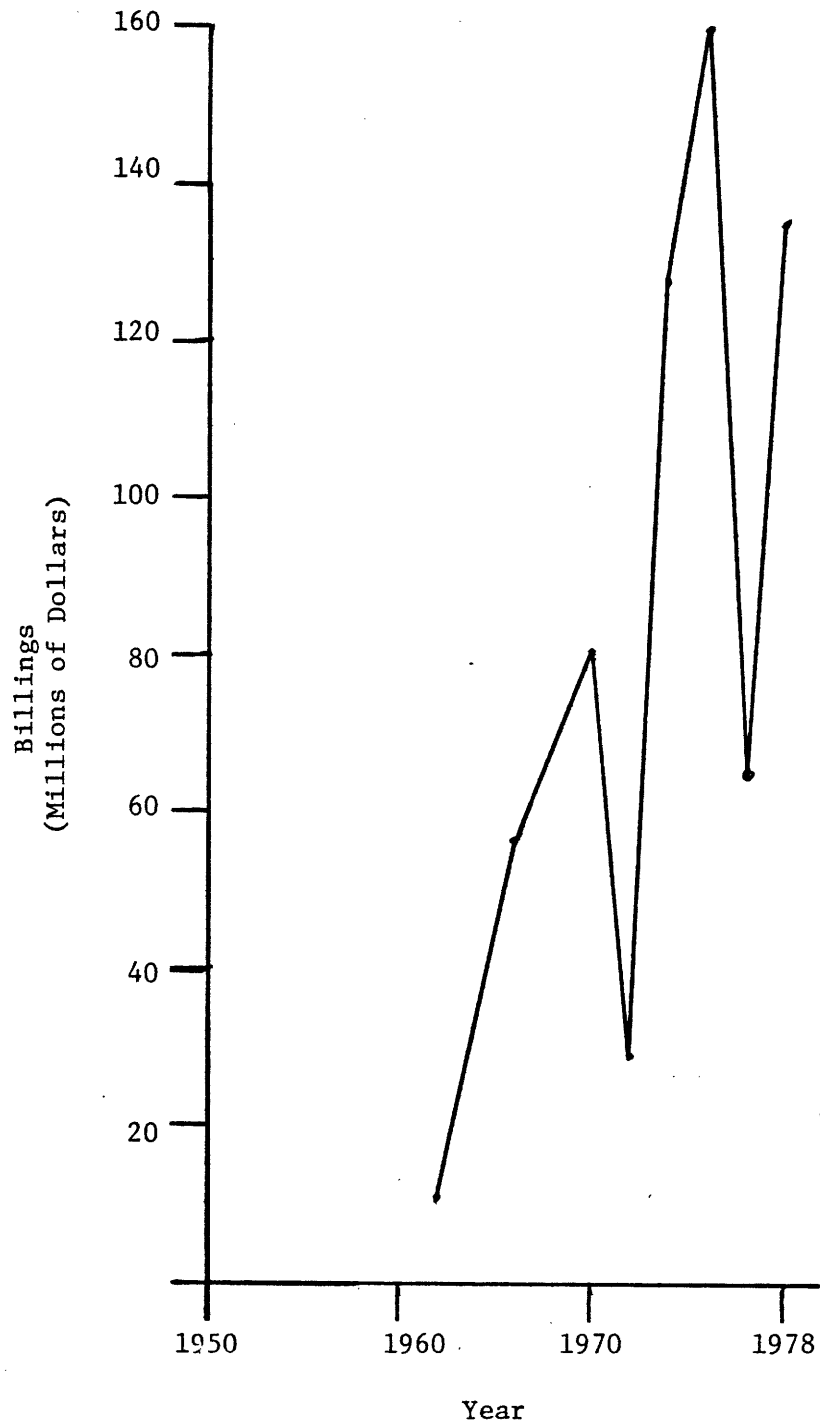


Figure 3-5. Average Billings Involved in each Merger Weighted by the Factor as Shown on Page 18

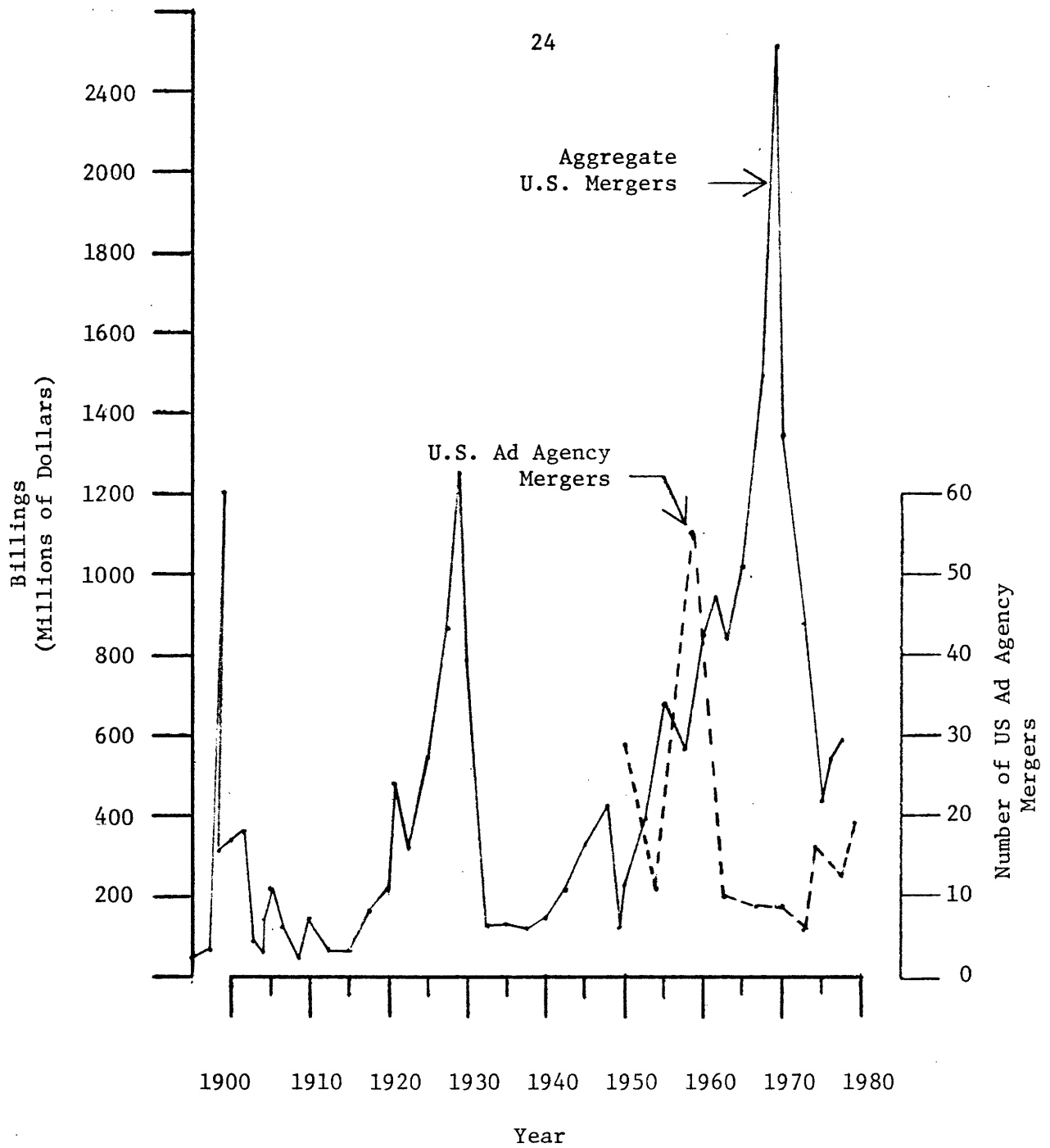


Figure 3-6. Number of Firms Acquired 1895-1977



Economists have also noted that merger waves tend to occur in periods of economic health and are followed by downturns in the economy.<sup>10</sup> Again, however, there is a lack of evidence identifying the factors that could drive a depression-prosperity cycle. In fact, the evidence that such a cycle actually may exist is only suggestive at best.

Figure 3-6 superimposes the merger data for U.S. ad agencies upon the aggregate merger time series for the U.S. This comparison is being made on the slim chance that some group of environmental factors in causing merger waves to coincide between industries. Unfortunately, ad agency mergers peaked in 1958 and are again peaking in the late 1970's, which brackets the U.S. aggregate merger peak of 1969.

### 3.4 Environmental Factors Affecting Ad Agency Mergers

#### 3.4.1 The 1950's

A glance at Figure 3-1 indicates that, in terms of the number of mergers, the decade of the 1950's witnessed a wave of mergers that peaked in 1958. Actually, popular magazine articles of the period began heralding a merger wave when the number of completed mergers among large agencies suddenly increased in the early 50's. In this period, many reasons were advanced in explanation; the majority centered around a perceived need for a "full service" agency.

Many agency executives believed that advertisers were now demanding additional support services, such as marketing research and media counseling — services which had to be financed out of the standard 15% commission.<sup>11</sup> Thus agency profits were viewed as being squeezed by the requirement to carry added staff specialists to handle these expanded services. In some

instances, agencies were successful in negotiating extra fees for these services, but mostly the 15% commission was viewed as a standard compensation.<sup>12</sup>

One view held that a small agency could remain profitable by operating with a very lean staff and catering to small accounts that did not demand extra services. However, when an agency approached the \$3 million (billings) level two effects occurred. First, to move above that level required extra staff to manage the added accounts — and this meant that expenses increased more rapidly. Second, to pass the \$3 million level required going after larger accounts. To attract such accounts required offering the extra services — which also quickly pushed up expenses.<sup>13</sup>

As a result, the \$3 to \$15 million billings range was viewed as an awkward area in which an agency had to provide all the services of a much larger agency without sufficient commissions to profitably fund them. Mergers were viewed as a way to pass quickly through this range.

Since the 1950's, ad agencies have continued to use this argument as a rationale for mergers in both periods of low and high merger activity. So it is difficult to envision that it was a major driving force behind the merger wave of the 50's. However, many agency executives of that period were recorded as believing that demands for extra services were becoming increasingly frequent; there may have been a cost squeeze peculiar to that time. In support of this premise, it should be noted that since that time, ad agencies have increasingly relied on charging extra fees for ancillary services. As early as 1965, a study by Booz Allen revealed this trend, which has continued to advance.<sup>14</sup>

One factor which is peculiar to the 1950's was the emergence of TV as a new advertising medium. As shown in Figure 3-7, TV ads appeared



Figure 3-7. Percent of Total U.S. Ad Expenditure Represented by Television

in the late 1940's and continued to grow rapidly through the 50's. Suddenly ad agencies had to learn how to handle this new medium, and a new specialty appeared in the agency.

Again, magazine articles of the period suggested that mergers were taking place because small agencies could not afford to carry the staff specialists necessary to work in the new medium. Additionally, it was felt that national TV accounts could only be handled by a large agency with offices in several cities; such agencies could best handle local spot TV campaigns.<sup>15</sup> Bob Newell of the agency Cunningham & Walsh, for instance, was quoted as saying that C&W's mergers were motivated (during the 50's) by a need to establish regional spot TV expertise for handling Texaco's national TV campaign.<sup>16</sup> Newell went further to state that regional representation was more economical than traveling out of New York and provided for closer policing of client media schedules. Acquisition of regional representation via merger was viewed as easier than opening a shop in a new location since regional knowledge was being acquired through a merger rather than by trial-and-error.

The incentive for the regional shop to merge with the larger agency was that it lowered some of the barriers to the shop's participation in large national TV accounts. Since most national TV originated in New York and Los Angeles, buying network TV time was easier if the agency was represented in those cities. A merger with a larger agency having offices in those cities allowed the regional shop to participate nationally.

In summary, the decade of the 50's was apparently dominated by the problems of adapting to the new medium of TV and the ad agencies seem to have believed that survival via merger was the best path.

### 3.4.2 The 1960's

After the merger wave of the 1950's, agency merger activity slowed down considerably with far fewer completed mergers being reported in the trade press. Actually, one source did report that agency mergers among small firms were on the increase,<sup>17</sup> but a search of contemporary magazine articles has revealed no such trend. It might simply be that small agency mergers aren't newsworthy and go unreported.

Toward the end of the 1960's, a trend did emerge among agencies, however, when they became very concerned with diversification. A survey conducted in 1969 revealed that many agencies believed that diversification outside of standard agency business was required to reduce their risk.<sup>18</sup>

The start of this diversification movement is difficult to pinpoint, but Doyle Dane Bernback appears to have been one of the initial participants with its 1968 investment in George Jensen Inc. — a prestigious Fifth Avenue store in New York.<sup>19</sup> Other movements included such diverse actions as the Lois Holland Calloway agency's opening of a personnel placement agency and Doyle Dane Bernbach's purchase of an ice cream and dairy products company. Table 3-2 provides a more complete listing of similar actions taken by other agencies.

Modern financial theory holds that companies should not seek to diversify for the sake of risk reduction alone since outside investors can accomplish the same thing much more efficiently by holding a widely diversified portfolio of stocks. However, most advertising agencies are privately held, with the principals and employees holding most of the equity. For these individuals, it may be rational to seek risk reduction through diversification of the agency since their portfolio of investments

Table 3-2. Ad Agency Diversification Moves

- Ted Bates & Co. formed Cybics Computer Corp., a subsidiary.
- Cadwell Davis Co. — Naomi Inc. (cosmetics for black women).
- Campbell-Mithun — several outdoor properties in St. Louis.
- Doyle Dane Bernbach — George Jensen Inc., Lux Brill Productions (TV production house).
- Foote, Cone & Belding — eight cable systems (owned by FCB Cablevision, a subsidiary).
- Kaufman, Spicer & Co. — New Richmond (Wis.) News; Skyway News.
- Lois Holland Callaway — opened Mantle Men & Namath Girls Inc. (51% ownership).
- Mathison/Ress — Backstage Tours.
- Papert, Koenig, Lois — acquired ACS Industries, electronic company Cybernetics Plastic Corp.; Century Cycle.
- Reach, McClinton — WOOT, Watertown, N.Y., am and fm; WALY, Herkimer, N.Y.
- Tatham-Laird & Kudner — acquired Industrial Water Engineering, Linens, Domestic, & Bath Products, and Musical Merchandise Review from Select Publications.
- J. Walter Thompson Co. — Porto Rican and American Insurance Co. (80% interest).
- Tracy-Locke — KCNW, Tulsa; KJIM, Fort Worth.
- Wells, Rich, Greene — invested \$943,946 and \$250,000 in two unnamed oil companies; started a feature film business

is most probably heavily biased toward the agency. They could sell off part of their investment in the agency and diversify their holdings with the receipts, but they probably value holding managerial control more than portfolio diversification.

As a point of interest, Papert Koenig Lois Inc. was the first agency to become publicly owned (1962) and since then only seven other agencies have made a similar move (Table 3-3).<sup>20</sup>

Table 3-3. Ad Agencies That Are Publicly Owned

<u>Agency</u>	<u>Where Stock Is Registered</u>
BBDO	Over the Counter
Doyle Dane Bernback	Over the Counter
Foote, Cone & Belding	Over the Counter
Grey	Over the Counter
Interpublic Group	New York Stock Exchange
Ogilvy & Mather	Over the Counter
J. Walter Thompson	New York Stock Exchange

Assuming that diversification for risk reduction may not be totally irrational for a closely held company, the agency's management team must still select acquisitions that management is capable of operating efficiently. In fact, it appears to be a widely held belief in the ad agency industry that most of the diversification moves were not compatible with existing management expertise. The financial results are reported as being largely unsuccessful.<sup>21</sup>

The fall-out from the moves into other businesses came very quickly, with such examples as DDB placing up for sale its chain of Oklahoma discount stores two years after their initial acquisition.<sup>22</sup> By the mid-1970's,

most agencies had sold off their non-advertising acquisitions and were returning to what they knew best — with a renewed interest in agency mergers.<sup>23</sup>

While still in the midst of diversification moves, however, U.S. agencies also began a global expansion phase which Advertising Age labeled an international merger wave.<sup>24</sup> This thesis primarily addresses domestic mergers among U.S. ad agencies, but this global expansionary period is worth a few words in passing.

In late 1969 some industry spokesmen were predicting that the world market for advertising would increase by 150% over the decade of the 1970's. However, two-thirds of this growth would occur outside the U.S. Given the bouyant prospects for international advertising, it would seem inevitable that U.S. agencies would seek to exploit it by moving overseas. Table 3-4 lists some of the mergers that took place in 1969.

Observers of global expansionary movements have noted that a company's first move into a foreign country is often accomplished via a joint venture with a company located in the country of interest. Joint ventures give the expanding company increased access to knowledge of the local language, customs, and market conditions, thus lowering the barriers to entry into that market.<sup>25</sup> It would appear that the advantages offered by a joint venture or merger are especially important to an ad agency since its success is especially contingent on an intimate knowledge of the local media and market conditions.

International analysts have also observed that corporations exhibit a trend wherein industry segments tend to move into foreign countries in waves. When one industry participant moves abroad, the leading competitors



Table 3-4. International Joint Ventures Announced in 1969

<u>Ad Agency</u>	<u>Country</u>
Needhan, Harper, Steers	U.S.
S.H. Benson Ltd.	Britain
Havas Conseil	France
Leo Burnett Co.	U.S.
LPE Ltd.	Britain
Benton & Bowles	U.S.
Carl Gabler Werbegesellschaft	Germany
BBDO	U.S.
Baker Advertising Ltd.	Canada
Ogilvy & Mather	U.S.
Corpa	Venezuela
Lennen & Newell: announces joint ventures with agencies in 30 countries	U.S.
McCann-Erickson	U.S.
Bergenholy & Arneson	Denmark

usually follow within a period of six or seven years. This appears to be partly a defensive maneuver to gain entry into the foreign market before the competition locks it up.<sup>26</sup> Thus the increased movement overseas in the late 1970's may have been a defensive action as well as an exploitive one.

As a final comment, some observers have noted that ad agencies perceived a growing threat from consumer activists and government regulatory agencies in the late 60's. As a result, agency executives became skeptical about the domestic industry's potential for long-term growth and began searching for a more promising business climate.<sup>27</sup> Indeed, the American

Association of Advertising Agencies still believes that the top problem of today's ad agency is a widespread belief that advertising is misleading.<sup>28</sup> Some observers believe this was a contributing factor in movement of ad agencies abroad and into other businesses during the late 1960's and the early 1970's. The explanation sounds plausible but one can only speculate as to its importance as a factor in the business decisions made during the late 60's.

### 3.4.3 The 1970's

Ad agencies entered the 1970's on a quiet note — at least in the area of domestic mergers. By 1974, however, merger activity began increasing again as shown in Figure 3-1. A combination of factors has been advanced as a cause for this heightened level of merger activity. First, some sources reported that advertising media costs were rising more rapidly than ad agency operating expenses.<sup>29</sup> Since agencies typically receive a 15% commission on their media payments, they realized a net gain from the situation — higher ad agency profits. Secondly, ad agency profits were further enhanced by an increased level of aggregate U.S. ad expenditures as (Figure 3-8).

Reasons advanced for the increased ad expenditures tend to point to the increased level of consumer spending (Figure 3-9) that occurred in the mid 1970's. Some industry observers theorized that increased consumer spending induced manufacturers to increase their level of advertising as a competitive move to raise their share of the newly expanding market.<sup>30</sup> The validity of this theory is of course difficult to test. However, accepting the premise of increased ad agency profit margins and

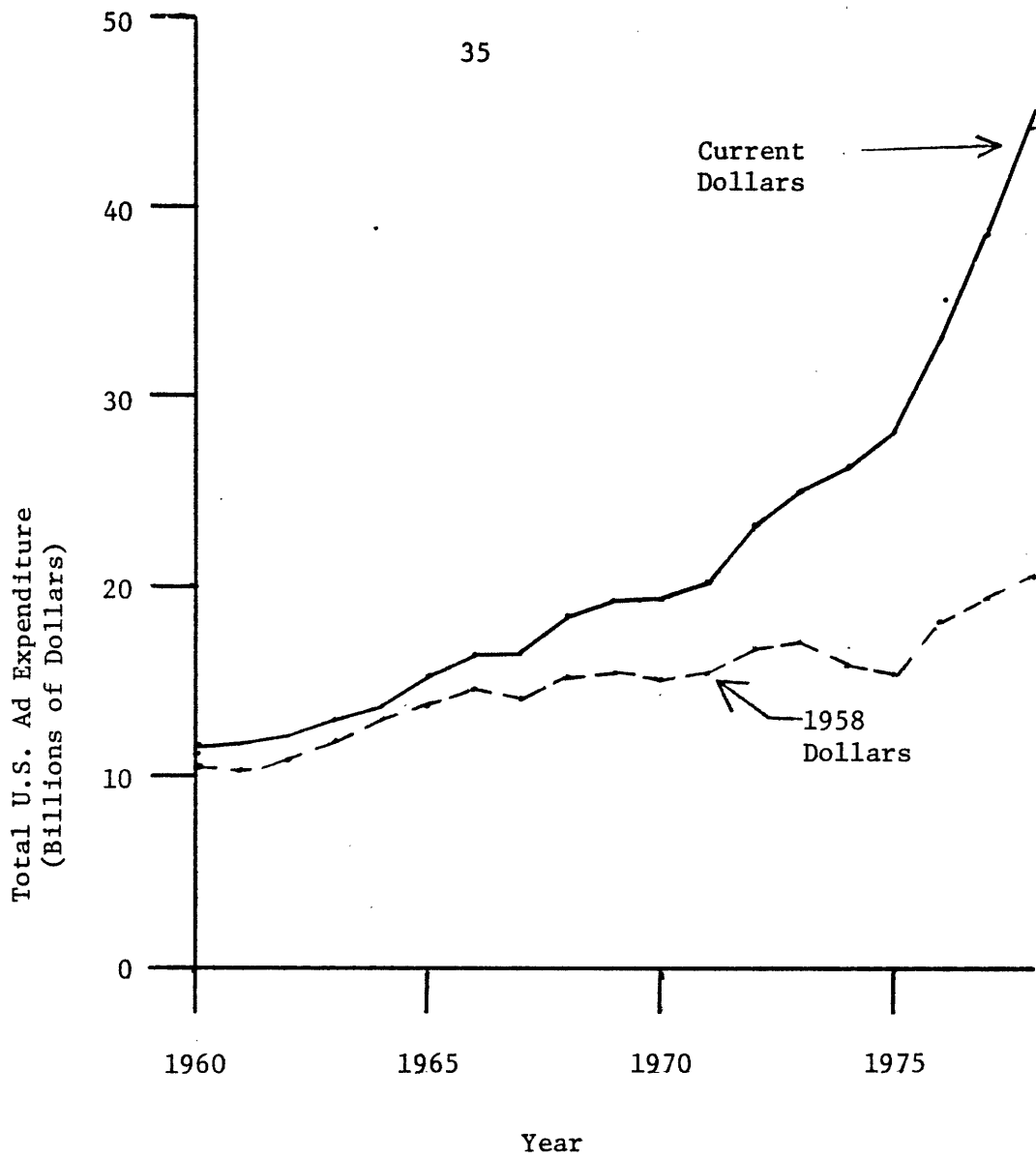


Figure 3-8. Total U.S. Ad Expenditure

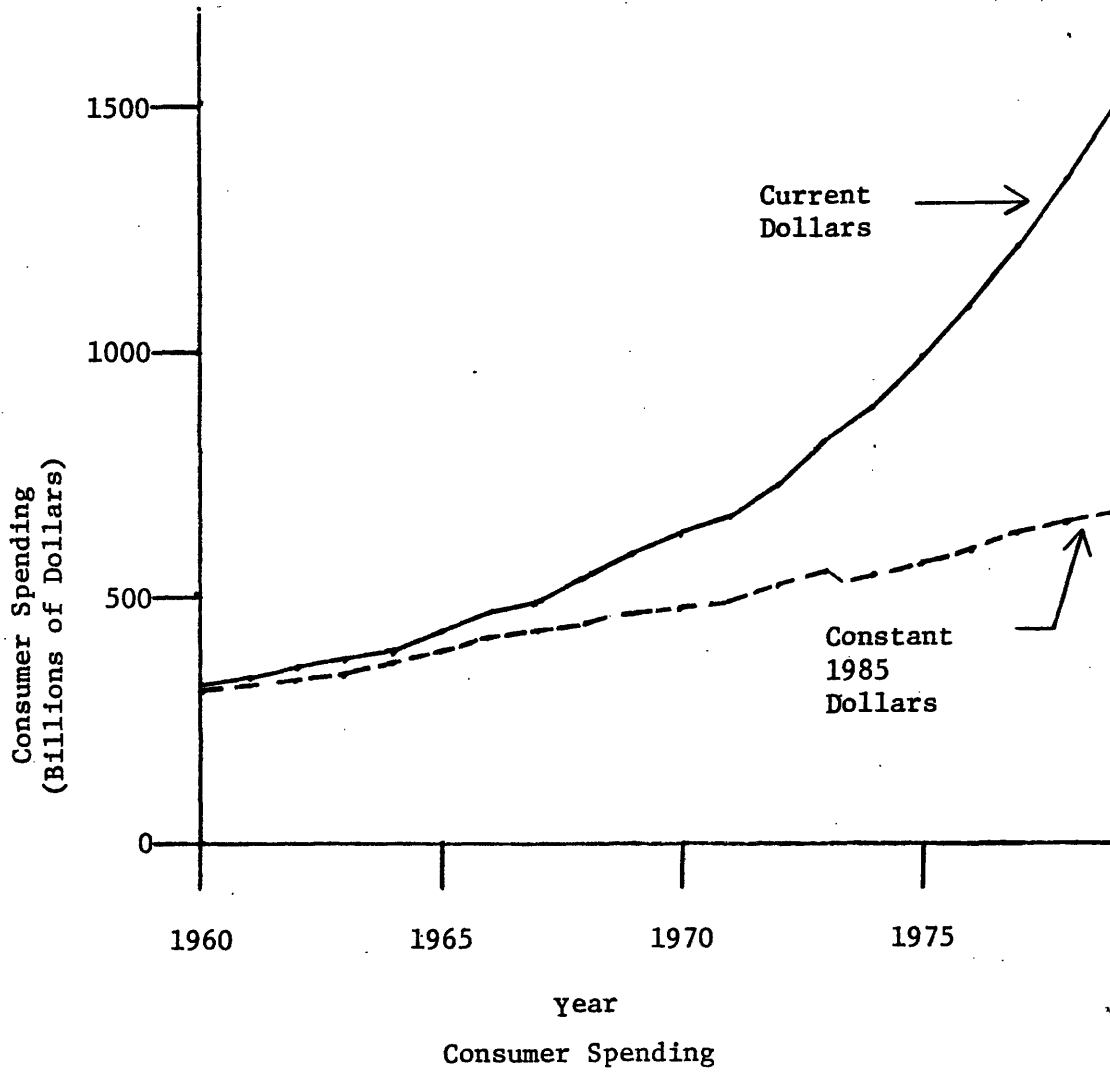


Figure 3-9. Data Taken From Various Issues of the Survey Of Current Business Statistics

aggregate ad expenditures some industry observers contend that the ad agencies were induced by the resulting cash inflow to seek mergers as a use for the cash.

In support of the claim that advertising media costs were rising more rapidly than ad agency operating expenses, a study by the American Association of Advertising Agencies does indicate that the average profit of member agencies did follow a rising trend that started in the early 70's (Table 3-5).<sup>31</sup> The same study also shows that agency payroll expenses — as percent of gross income — did show a downward trend that started in approximately 1973 or 1974 (Table 3-5). Of course, this could have resulted from either of the following:

- Agencies used fewer employees to handle the same amount of work.
- Employee salaries were affected less by inflation than by commissions on billings.

Table 3-5. Ad Agency Net Profit and Payroll Expense as a Percentage of Gross Income

<u>Year</u>	<u>Average Net Profit for Incorporated Agencies (Percent of Gross Income)</u>	<u>Average Payroll Expense (Percent of Gross Income)</u>
1970	3.11	66.67
1971	2.87	65.26
1972	3.62	64.53
1973	3.87	64.37
1974	3.43	64.11
1975	3.91	63.23
1976	4.52	61.86
1977	4.36	61.41
1978	4.74	61.02

Detailed tracking of employee pay scales and media cost indices would require more information than this author has been able to locate, so it is difficult to sift out which of the above factors is dominant. However, published media cost indices — when corrected for inflation — do demonstrate that costs in some categories were rising faster than the general price level (Table 3-6). When the cost index for each media is weighted by the media's contribution to overall U.S. ad expenditures, the trend of media costs does appear to be rising faster than the general price level as shown in Table 3-6. Table 3-6 is in terms of constant 1970 dollars.

While the evidence is certainly not conclusive, it does lend some support to the premise that rising media costs were helping to increase agency profits in the latter 1970's. Industry observers conclude from this that increased cash flow from higher profits is leading many agencies to seek uses for it. However, because of the unsuccessful experiences with diversification outside of standard agency business, the agencies are returning to their area of expertise — advertising. This is resulting in the recent wave of mergers among domestic ad agencies.<sup>32</sup>

One wonders, however, why the same conditions that afford agencies the resources to fund mergers would not simultaneously dissuade other agencies from seeking to be acquired. If their profit potential is also rising, one would expect the acquisition price to rise — which would negate the buying power of the excess cash in the acquiring agency.

One explanation offered as a solution to this paradox is that smaller firms are being caught in a credit squeeze and are thus forced to seek acquisition. High interest rates (prevalent in the late 70's) prompt clients to hold back payments to their ad agencies so that cash can be

Table 3-6. Media Cost Indices  
(All indices in constant dollars, 1970 = \$1.00)

<u>Year</u>	<u>Magazine</u>	<u>Newspaper</u>	<u>Net TV</u>	<u>Spot TV</u>	<u>Net Radio</u>	<u>Spot Radio</u>	<u>Outdoor</u>	<u>*Composite Index</u>
1970	100	100	100	100	100	100	100	100
1971	96.8	100	91.8	95.6	89.7	92.4	103.7	97.2
1972	90.4	100	103.1	103.3	96.6	94.6	108.4	99.53
1973	88.3	96.9	108.3	105.6	90.8	93.5	108.4	98.9
1974	83	103	105.2	101.1	82.8	88	104.7	99.7
1975	80.9	100	102.1	100	79.3	84.8	102.8	96.9
1976	80.9	106.1	115.5	120	87.4	87	106.5	105.7
1977	78.7	106.1	125.8	117.8	88.5	84.8	105.6	106.2

\* NOTE: The composite Media Index was calculated by weighting each media cost index by the media's percent contribution to the total U.S. ad expenditures budget, and calculating the average across all media.

funneled into money market funds to exploit short term interest rates. Small agencies have limited resources to fund accounts receivable and thus may be forced to seek a merger as a means of survival.<sup>33</sup>

Evidence of such an effect is difficult to find, however. In fact, a survey conducted among fifty agencies in New York that primarily bill less than \$5 million a year revealed no such problem, and this was as late as October, 1979, when rates were very high.<sup>34</sup>

What is even more interesting is that the media has claimed that advertising agencies, not advertisers, are routing cash into money funds and that the media is the one being squeezed — not the ad agency.<sup>35</sup> It is impossible to determine which actor is gaining from the payment slow-down on the basis of the published accounts. However, the advertiser would appear to be in the stronger position since the agency and the media must both wait for the ad agency to complete its payment before the money can be funneled to the concerned parties.

In summary, published accounts tend to pinpoint increased cash flow from inflated media commissions as a major force behind the merger wave of the 1970's. However, a convincing argument has not been advanced as to why the buying power of this cash would not be negated by a compensating rise in acquisition prices of other agencies that enjoy the same prosperity.



## CHAPTER 4

## MERGER MOTIVES COMMON TO ALL ERAS

4.1 Managerial Talent

The previous three sections of this report sought to capture the differences that distinguished the merger trends between 1950 and 1980. However, in some ways, what is more striking than the differences is the regularity with which certain motives are advanced as reasons for mergers over the decades.

The search for articles written on the subject was extended back to the late 1920's and a list of motives common to these eras was accumulated (Table 4-1). One interesting motive involves the type of individual who succeeds in becoming the owner of a successful small agency. According to Joseph Caggiano of Bozell & Jacobs, this type of individual has achieved his status because of his entrepreneurial spirit and multiple talents.<sup>36</sup> As their agencies grow, however, these individuals become more involved with the financial aspects of the business and less with the creative and operating functions. Many are not interested or trained for these managerial positions, and they become dissatisfied. As a result, a friendly merger is sought — one which will remove some of the financial and accounting drudgery from their position. Whether or not this really accomplishes the intended purpose is open to question.

4.2 Retiring Owner

A second reason that prompts many mergers is the desire of the founder to extract his investment from the agency so that he may retire. As of 1978, only seven agencies had made public issues of stock — the

Table 4-1. Merger Motives That Appear To Be Common to all Eras

- Ad agency owner sheds some managerial and accounting drudgery by merging with a larger firm whose staff will take on some of the book work.
- Owner wishes to retire and extract his equity.
- Small firms encounter trouble in attracting larger clients because of a psychological stigma attached to small billings size.
- An ad agency must open other offices before it can offer the wide geographical coverage demanded by large clients.
- Agency must grow so that it can carry the staff needed to offer the in-depth services demanded by large clients.
- An agency should diversify its industry specialties as a means to risk reduction.

vast majority of agencies are still privately held. The founder must, in most cases, locate an outside buyer or sell the agency to the employees.<sup>37</sup>

One observer has noted that there is usually a preference for selling to an outside agency since they typically are willing to pay more than the present employees.<sup>38</sup> It could be that the outside agency perceives a synergistic advantage to the merged firms that justifies a higher price or it may be that the employees don't have the funds necessary to match the outside agency's offer. However, some skeptical observers have voiced the opinion that the only one to gain in most small-agency deals is the owner of the small agency.<sup>39</sup>

Regardless of who wins or loses in the deal, it appears that a "sell and bail-out" scenario is fairly common among agency mergers. Charles Rumrill of Rumrill-Hoyt, Inc. reported in 1966, for example, that many of the agencies acquired by Rumrill-Hoyt had not been sold to employees

because they could not raise the funds and the principal owner wanted to retire.<sup>40</sup> Recently some observers have suspected that several unnamed big mergers of 1979 were motivated by a "bail-out" philosophy.<sup>41</sup>

#### 4.3 Size Stigma

Small agencies believe they must grow large to attract the larger accounts. This sounds like circular reasoning, but it is widely felt that billings size has a connotation of capability and expertise. In many agency merger announcements, this is often implied as a contributing factor; but occasionally the principals involved in a merger will openly state that a size stigma was preventing them from winning larger accounts, and the merger was a step toward solving that problem.<sup>42</sup>

Industrial Marketing conducted a survey in 1975 to determine if advertisers were influenced by billing size when choosing an agency.<sup>43</sup>

One automatically suspects the responses received in such a survey since, in the eyes of many, quality — not size — is the "right" answer. Nevertheless, the survey results are interesting for their ambivalence alone. A common response was that "bigness does not matter if you have the right people". Other responses, however, centered on such concerns as:

- A small agency may not be able to handle the cash flow problems of a large account.
- Large agencies may be able to attract the most talented employees, since large agencies may be able to offer higher salaries than smaller agencies.
- A small agency may have to staff up considerably to handle a large account.

Advertisers did voice doubts about the depth of service a small agency could offer, but they simultaneously worried that their account

might receive less attention if it were placed with an agency that was too large. What these results seem to imply is that advertisers are first concerned with the particular personnel placed on their account. This was mentioned several times in the survey, but there was also a concern about matching the size of the agency to the account size — in other words, billings size of an agency is a factor in its selection.

In support of this size issue is a study performed in the late 1950's. It surveyed a cross-section of agencies regarding the percentage of their total billings contributed by the largest client (Table 4-2).<sup>44</sup> The percentage does vary with billings size but not very much, implying that the tailoring of account size to agency might be taking place. Of course, it might be the agencies themselves who limit the size of an account they go after. It seems more likely, however, that the advertiser is doing the screening.

An interesting comment on this problem was made by C. Rumrill of Rumrill-Hoyt in 1966. At one point, General Dynamics and Alcoa were Rumrill-Hoyt's largest accounts. When General Dynamics bought Stromberg-Carlson and Alcoa bought Rome Cable, Rumrill-Hoyt believed it might lose the accounts to larger agencies. It was thought that the newly diversified companies would search for larger agencies capable of providing more in-depth service. In C. Rumrill's words, this threat led them to merge with Baldwin, Bowers and Moser Catins in the same year.<sup>45</sup> Whether or not a size stigma exists, agency belief in it appears to directly affect merger activity.

Table 4-2. Largest Client's Percentage of Total Billings

<u>Size of Agency</u>	<u>Percent of Billings from Largest Client</u>	<u>Number of Agencies Surveyed</u>
under \$1 million	20.5	263
\$1 million to \$3 million	19.5	137
\$3 million to \$10 million	25.5	72
over \$10 million	22.0	36

This data was taken from the following study performed for the association of National Advertisers:

The Advertising Industry

ANA, 1958, p. 61.

The study surveyed a total of 508 advertising agencies which were spread across the range of billings as shown above.

#### 4.4 Geographical Expansion

In the universe of reasons advanced in explanation of agency mergers, "geographical extension" is second in frequency only to "broaden services". Richard C. Christian (president of Marsteller Inc.) summarized much of the rationale when he stated that if an agency's growth potential in one geographical market is limited, it can grow by expanding to other cities.<sup>46</sup>

In piles of newspaper reports, it appeared that about half of agency mergers were aimed at establishing an office in another city.

Of course, an agency could simply open an office in the city of interest, but many agency executives perceive the risk and cost of a merger as being lower than that of opening a new office. As examples, Campbell-Ewald, MacManus, John & Adams, and the Griswold-Wshleman Company all moved into the Chicago market by acquiring agencies there.<sup>47</sup> One advantage of

this approach is that the acquiring agency is purchasing a working knowledge of the new market's local media — it does not have to acquire it through a lengthy start-up period.

A second advantage of this method of geographical expansion is that the acquiring firm gains the account managers of the acquired firm. When advertisers are asked what they consider important in selecting an agency, the primary criterion is the agency person who will be assigned to their account.<sup>48</sup> Thus the acquiring firm is purchasing a certain amount of goodwill that the acquired firm has generated during its existence.

Unfortunately, a merger often results in several account managers leaving the acquired agency and taking their accounts with them. Mergers often cause such departures when the personnel of a smaller agency are merged into a much larger and presumably bureaucratic agency. The fear is that the bureaucracy will destroy the working environment to which they are accustomed. A similar, more subtle situation arises when the personnel of a smaller agency have planned to purchase the agency from the retiring owners, and it is merged instead.<sup>49</sup>

When a client diversifies beyond regional bounds, agencies often voice a fear that the account will also grow and then depart for a larger agency. As a result, some agencies feel compelled to expand beyond local barriers to maintain their growing accounts. Agencies and advertisers appear to disagree (even within their own ranks) as to the extent to which an agency must be physically represented in the locations in which a client wishes to advertise. All do agree, however, that there is a performance premium associated with having first-hand knowledge of the media in a targeted location. An interesting perspective on this issue is provided by

John Zowden — a vice president of ITT. Zowden states that ITT believes an agency is only as good as its local service. As a result, ITT retains 100 different agencies to handle its regional accounts. Colgate-Palmolive, another national firm, retains eighty agencies.<sup>50</sup>

Clearly not all national advertisers have the resources or desire to deal with this number of agencies. P. O'Toole of Foote, Cone & Belding, for one, believes that some advertisers prefer the centralized planning of a national campaign that a single large agency is able to provide.<sup>51</sup> Of course, localized agencies could compensate for a lack of regional offices by sending representatives into the field, but the establishment of permanent offices in strategic cities may serve to lend additional credibility to an agency's claim regarding national capabilities. It might also be less expensive when the cost of travel is considered.

To gain perspective on this issue, a sample of 100 ad agencies was selected from the top 600 U.S. ad agencies. The number of U.S. offices and total U.S. billings was collected for each agency and graphed as a scatter plot (Figure 4-1). This figure shows that most agencies billing less than \$100 million a year generally have from one to three offices. A few have more than five. Agencies billing more than \$100 million, however, all have more than five offices — the largest has 23.

It appears that above a certain scale of billings, agencies find it more economical to operate out of several offices, or multiple offices are required to attract the account size necessary to grow above billings of \$100 million. Thus there may be a rational need for small agencies to diversify geographically if they wish to grow very large.

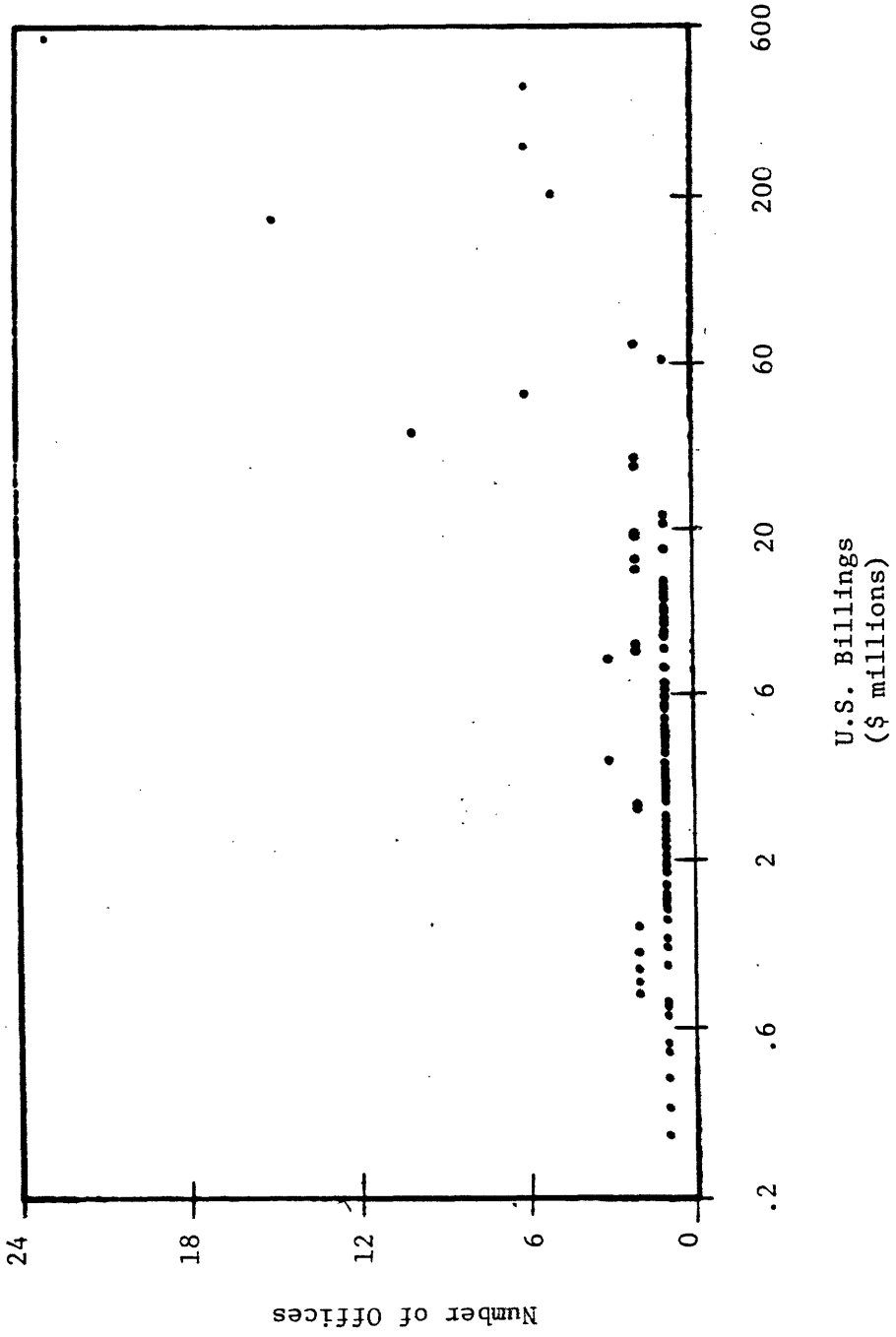


Figure 4-1. Scatter Plot of Number of U.S. Offices versus U.S. Gross Income for 94 Ad Agencies



#### 4.5 Service Expansion

A Booz Allen study performed in 1965 discussed how the explosion in diversity of products had fragmented the market and resulted in the proliferation of advertisements for competing brands. The study concluded that manufacturers had been forced to view advertising as one segment of a marketing program — not an isolated expense. The study went further to note that this trend had created a need for an ad agency that could provide full marketing support.<sup>52</sup>

Indeed, having read through piles of merger announcements, I believe that almost every merger since World War II has been partly justified by a need to broaden services. The services typically include marketing research, merchandising consultation, TV programming, and public relations, as well as other assorted categories. While reading through several decades of magazine articles. I noted a good deal of ambivalence about clients' desire for the extra services. Jack Young (president of the Foods Division of Quaker Oats) is quoted as stating that Quaker is not looking for agencies to help with their marketing effort.<sup>53</sup> Also, the Booz Allen study noted that in 1965 there was a trend among advertisers toward self-sufficiency in their marketing departments. The attitude of most advertisers was that advertising creation was the only essential element that an ad agency could do better than an in-house marketing staff.<sup>54</sup>

Of course, the ability of a firm to fund a sophisticated in-house marketing staff depends on the firm's size. Companies smaller than Quaker Oats may find it economical to use ad agency services rather than carry a staff of marketing scientists. Thus there may be a need for full service agencies among smaller for less mature firms. A survey performed by the

American Marketing Association revealed that many of the surveyed ad agencies were using in-house staff to provide the extra research services (Table 4-3). It would seem likely that ad agencies also have some minimal billings size below which they cannot economically carry on in-house research staff. Presumably small agencies could purchase the services of an outside research firm, but in-house services may offer advantages in tighter managerial control on availability and quality of the research team. Thus there may be a rational incentive for merging to reach a scale that allows the establishment of in-house research facilities.

Table 4-3. Research Services Provided by Ad Agencies via an In-House Staff

<u>Research Activity</u>	<u>Percent of Surveyed Agencies Performing Activity with In-House Staff</u>
motivation research	38
copy research	51
media research	45
studies of ad effectiveness	49
new product acceptance	53
competitive product studies	52
product testing	39
development of market potentials	53
market share analysis	50
consumer panel operations	30

Data taken from: 1968 Survey of Marketing Research  
American Marketing Association  
 Chicago, Illinois, 1968, p. 44.

#### 4.6 Clientele Diversification

Another motive constantly mentioned in connection with ad agency mergers is a need to diversify an agency's business segment or simply expand the number of accounts. As an example, the agency Marsteller Inc. was started in 1951 with two accounts — Clark Equipment and Rockwell. Those two clients accounted for two-thirds of Marsteller's total business for the first several years of its existence. Given its heavy dependence on the two clients, one of Marsteller's highest priorities was to diversify its client list for risk reduction.<sup>55</sup> It did this by first seeking new business and later by acquiring agencies.

As discussed in Section 3.3.3 of this report, modern finance theory holds that a company should not seek diversification for risk reduction since stockholders can do it much more efficiently by adjusting their portfolios. But as mentioned earlier, most ad agencies are closely held by private investors for whom diversification through company efforts may be rational. Marsteller's early efforts at diversification appear to fit this category.

Marsteller is not alone in its efforts. In the early 1970's a survey was conducted among executives working for 50 of the top ad agencies. A common view was the diversification was necessary to create security and stability in a business that needs both very badly.<sup>56</sup>

The instability of an agency's business is still a subject of concern and is often mentioned in connection with today's agency mergers. In the 1960's, Ogilvy and Mather's top ten clients provided 67 percent of its billings, but today that number is down to 34 percent. Some industry observers view this as a result of the agencies' consolidation trend, which

will have a beneficial effect of stabilizing their business. Account switching has always been a major source of risk for advertising agencies. Even though an account remains with an agency for an average of nine years,<sup>57</sup> one agency executive summarized the situation when he stated that "in this business you only know that you'll have an account for the next 90 days, the standard termination period".<sup>58</sup> In fact, agency executives informally say that the 90-day period can shrink to thirty days or less since it is common practice to accept early termination if the client is not satisfied with the relationship.

There are also indications that diversification of the client base for cash flow stability also concerns the clients. A survey of advertisers conducted by Industrial Marketing revealed that many advertisers don't want to be the largest account in an agency for two major reasons. First, it makes changing agencies appear heavy-handed. Second, concentration of such a large percentage of an agency's billings in one account may choke the agency's cash flow — causing it to become financially unstable.<sup>59</sup>

One incident of interest involves the merger of Campbell-Ewald with Interpublic in 1972. Campbell-Ewald was heavily dependent on Chevrolet's account for its existence and was searching for a merger to diversify its client base. When Campbell-Ewald merged with Interpublic, which had GM's Buick account, rumors began spreading that GM had pressured Campbell-Ewald to carry through with the merger as a means to stabilize the agency's finances.<sup>60</sup> Clients prefer to see an agency with whom they have a successful relationship remain financially viable. All parties involved in the merger disavowed such pressure, but all openly agreed that it was to Chevrolet's advantage to complete the merger.

Another incentive for an agency to diversity its client base lies in the conflict of interest question which arises when one agency attempts to handle two accounts in the same industry. It has long been customary for advertisers to demand that agencies not handle accounts for products which compete with their own for consumer attention. Even when not handling directly competing products, there is the concern that working on non-competitive products for companies that do compete in other areas may result in the leakage of proprietary information through the ad agency. Today this premise is beginning to be questioned. Some large ad agencies are organizing autonomous divisions that presumably can handle competing accounts without conflict of interest problems.<sup>61</sup>

However, the problem has not disappeared completely. A survey conducted by Advertising Age in 1979 revealed that when a client's agency is considering a merger, the conflict of interest question runs second only to inquiries about the financial stability of the merged entity.<sup>62</sup> For the small or mid-size agencies not organized on a divisional basis, the conflict of interest problem would appear to still be a valid issue.

If a smaller agency has specialized in one industry (electronics, pharmaceuticals, etc.), it may reach a point beyond which it cannot grow because of account conflicts. Diversifying outside this specialty, however, might be blocked since it will have established a reputation as a specialty shop. Campbell-Ewald encountered this difficulty in the early 1970's when it was known as an automotive agency. It found it very difficult to diversify into pharmaceutical or package goods.<sup>63</sup> The solution as voiced by many agencies is to merge specialty agencies and grow from there. However, it is unclear as to why two specialty shops should

succeed at attracting accounts outside their specialties simply because they have merged. The underlying argument appears to be that the consolidation of various specialty shops into a multi-specialty agency will, through synergy, permit greater overall growth than the sum of the individual agencies. This is an interesting assertion, but its testing is beyond the scope of this report.

## CHAPTER 5

## ECONOMIES OF SCALE

5.1 Agency Statistical Data

Economies of scale are often voiced as a primary incentive behind ad agency mergers. Merger announcements, however, are typically very vague with regard to the sources of these economies. Usually some reference is made to merging and trimming of research departments or the consolidation of separate offices in the same city. This section of the thesis investigates the economies of scale premise by observing how ad agency labor expense varies with agency size and media mix. A study performed by the American Association of Advertising Agencies (AAAA) demonstrates that labor expense typically accounts for more than 65% of an ad agency's total operating expenses.<sup>64</sup> If other expenses closely related to labor (pension plans, etc.) are also included, more than 70% of a typical ad agency's expenses are related to labor.<sup>65</sup> Thus the number of personnel a given ad agency employs provides some indication of that agency's cost structure relative to other agencies.

To test the hypothesis that large agencies benefit from economies of scale the number of agency employees divided by the agency's gross income (in term of \$100,000) was calculated for a selected sample of 94 advertising agencies. This calculation provides the average number of employees a given agency requires to handle an account generating \$100,000 of gross income. Gross income (GI) includes the agency's media commission, mark-ups on suppliers' bills, and its fee for additional services.<sup>66</sup> Thus GI approximates the funds an agency has available to

cover in-house expenses. Since labor roughly approximates 70% of a typical agency's expenses (or 50 to 60% of GI), the number of employees per \$100,000 of GI provides an approximate measure of an agency's expenses/GI ratio as follows:

$$\frac{\text{expenses}}{\text{GI}} \approx \frac{\text{labor expense}}{\text{GI}} = \frac{P \cdot \text{NEMP}}{\text{GI}}$$

NEMP = number of personnel employed by an agency

P = average pay per employee

The average pay per employee (P) will be dropped from the equation for the rest of the analysis. The ratio of NEMP/GI will be used as a surrogate measure. This assumes that P does not vary across agencies which may not be true. For one thing, the skill level of employees may vary with agency thus causing average pay to vary from agency to agency. For purposes of this analysis, however, this factor will be assumed to be of secondary importance. If large agencies realize economies of scale, the NEMP/GI ratio should decrease with increasing agency size.

Statistics for the number of employees and GI were collected for 94 ad agencies. These data were taken from the 1978 edition of Advertising Age's annual issue covering the top 600 U.S. ad agencies.<sup>67</sup> Each year this issue lists the agencies sequentially by billing size. The sample of 94 used in this thesis was selected by choosing every sixth agency in the list of 600; starting with the largest agency. The U.S. GI and U.S. employee statistics were recorded for the selected agencies. Additionally, the percent media mix (newspaper, magazine, TV, radio) was recorded for each ad agency in order to determine if media mix affects



the cost structure of an ad agency. The media mix data was taken from the 1978 edition of the Standard Directory of Advertising Agencies. The resulting data base covers the following gross income and billings range:

Domestic U.S. Billings per agency  
\$440,000 to \$619,000,000

Domestic U.S. GI per agency  
\$48,000 to \$92,800,000

## 5.2 Statistical Tests

As a first test, the NEMP/GI ratio was plotted as a scattergram with GI on the X axis and NEMP/GI on the Y axis (Figure 5-1). As demonstrated in Figure 5-1, there does indeed appear to be a trend of decreasing NEMP/GI with increasing GI. Since the NEMP/GI ratio appears to be falling toward an asymptote of approximately 2.5, an equation of the form shown in Table 5-1 was fitted to the data points using the nonlinear regression package in the TROLL statistical program at the Massachusetts Institute of Technology. The format of the equation in Table 5-1 was chosen since it has the property of declining from an initially high value toward an asymptote as shown in Figure 5-2. This appears to approximate the shape of the scattergram in Figure 5-1. Table 5-1 shows the result of the regression. The value of 2.5 for  $C_3$  implies that this is approximately the minimum NEMP/GI ratio that an agency can achieve. The F statistic indicates that the null hypothesis ( $C_2 = C_3 = 0$ ) can be rejected at the .01 critical probability level. In other words, the regression lends statistical support to the premise that larger agencies are able to function with fewer employees per dollar of gross income.

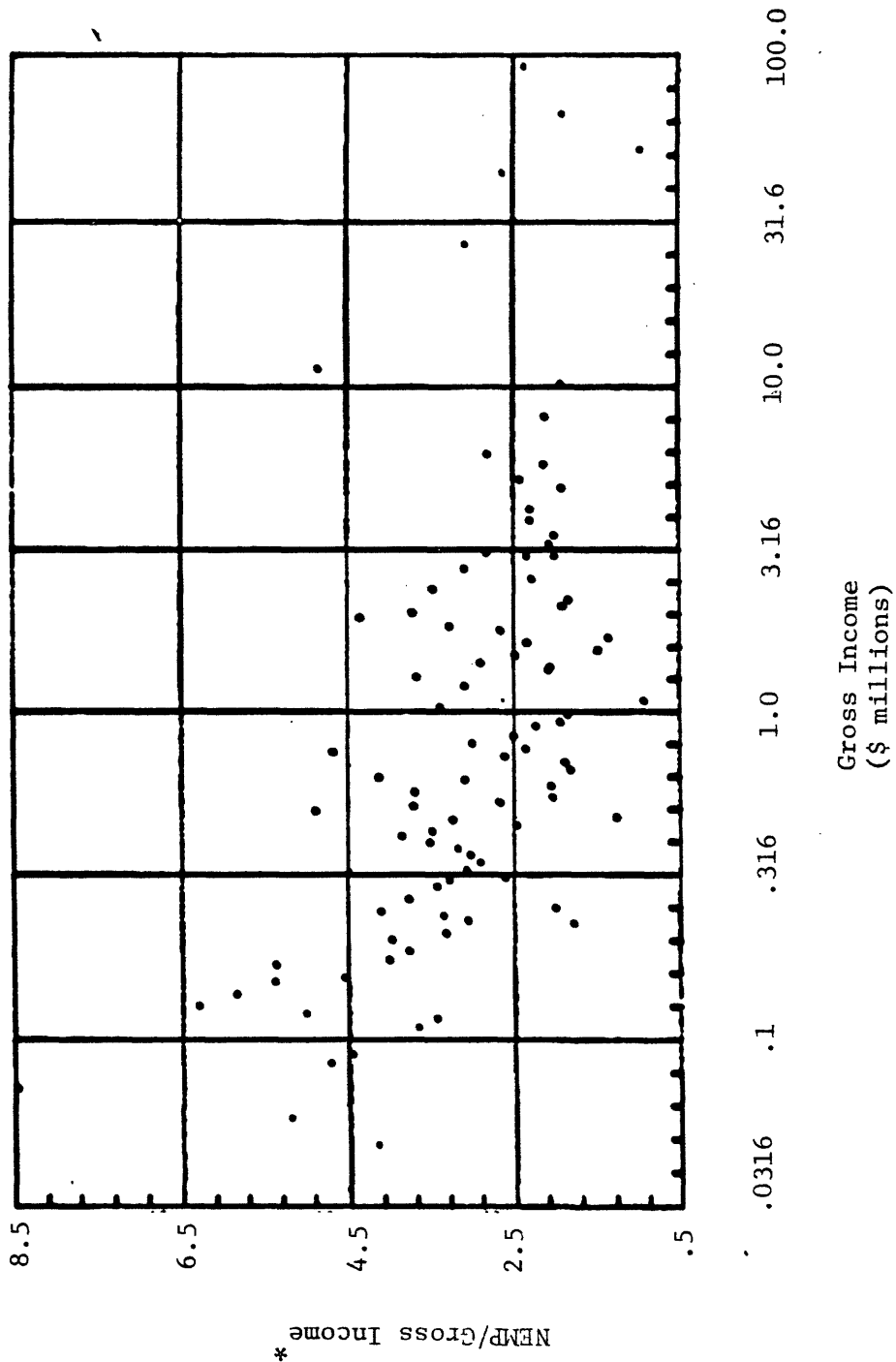


Figure 5-1. Scatter Diagram of NEMP/Gross Income\* Versus Gross Income

\* Gross Income in terms of \$100,000.

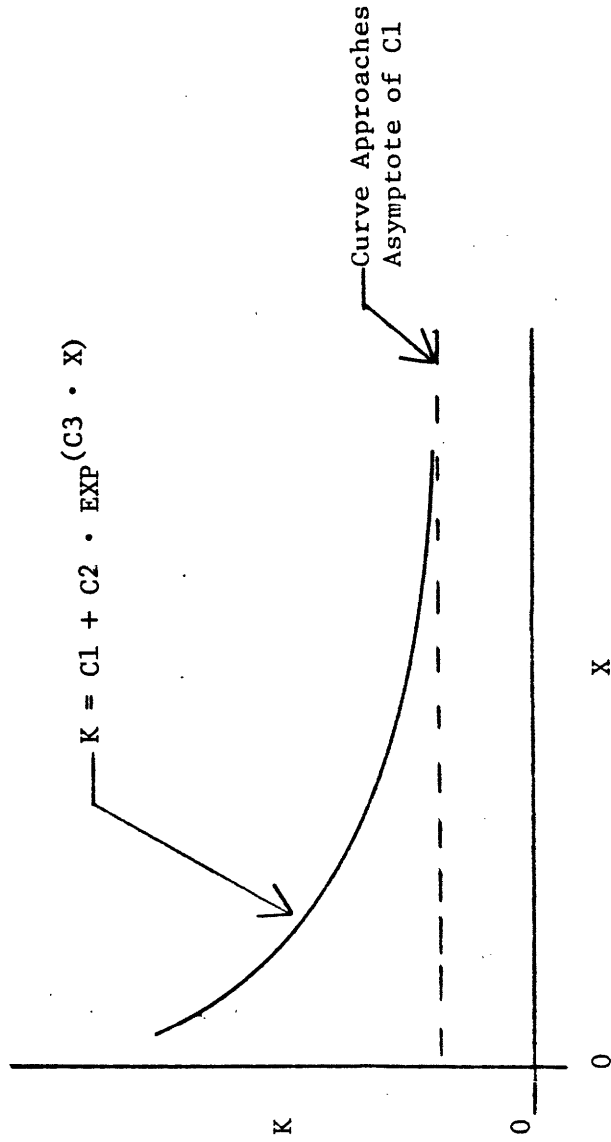


Figure 5-2. Behavior of Equation Used In the Initial Regression (Table 5-1)

Table 5-1. Equation and Results for Model A8

## Equation:

$$K = C1 + C2 \cdot C(C3 \cdot X)$$

X = domestic US gross income for a

K = employees/gross income

C1, C2, C3 = regression coefficients

## Results of Regression:

<u>Coefficient</u>	<u>Value</u>	<u>T-Statistic</u>
C1	2.50909	18.89710
C2	4.10559	5.58055
C3	-5.25735	3.95739
Corrected R <sup>2</sup>	= .44781	
Durbin Watson (0)	= 1.86	
Sum of Squared Residuals	= 77.582	
F(2/91)	= 38.711	
Standard Error	= .9233	

It was next attempted to introduce media mix effects into the equation. This was attempted in a stepwise manner using the equations listed in Table 5-2. It had been planned to perform F tests of significance among the various equations to see which specifications performed best. Unfortunately, the nonlinear regression package in TROLL was able to estimate only equations A5 and A8 (Table 5-2). Various methods, such as specifying initial values for the coefficients, were attempted as a means to solve the regression. However, all failed with the software printing out error messages to the effect that the solution had diverged. Tables 5-1 and 5-3 present the results of the two equations for which a solution was found. As shown in Table 5-3, Model A5's corrected  $R^2$  has improved over Model A8's corrected  $R^2$  (Table 5-1). The various media do appear to differentially effect the asymptote to which the agency's NEMP/GI ratio is falling. Table 5-4 shows the calculation of the F test of significance for the introduction of media effects between Model A8 and Model A5. The F statistic demonstrates that the null hypothesis of no effects can be rejected and that the introduction of media effects into the asymptote has contributed to the equation.

### 5.3 Modified Regression Equations

Since the nonlinear regression software was not able to handle the majority of the equations shown in Table 5-2, a set of linearized equations (Table 5-5) was next used. The basic equation, B4 in Table 5-5, can be rewritten as follows:

$$\ln (K) = A + B \ln (X)$$

$$K = \text{EXP}[A] \cdot \text{EXP}[B \ln (X)]$$

$$K = \text{EXP}[A] \cdot X^B$$

This form can then be manipulated as follows:

$$\frac{dK}{dX} = \text{EXP}[A] \cdot B \cdot X^{B-1}$$

$$\frac{X}{K} \frac{dK}{dX} = B \cdot \text{EXP}[A] \cdot X^{B-1} \cdot X/K$$

$$\frac{X}{K} \frac{dK}{dX} = b$$

Thus B can be interpreted as a constant elasticity of cost (K) with agency size (X). The equation can also demonstrate declining costs (K) with increasing agency size (X). Unfortunately, the equation approaches an asymptote of 0. This is certainly a weakness of the model, but it was hoped that some information regarding differential media effects relating to slope might still be obtained from the regression results. Tables 5-6 through 5-9 list the regression results for Models B1 through B5.

Coefficient B in Model B4 (Table 5-9) represents the elasticity of cost term. The value of the coefficient (-.12946) indicates that a proportional increase (L) in an agency's GI is accompanied by a proportional decrease (.12946 · L) in the agency's NEMP/GI ratio. GI is in terms of \$100,000.

When media mix effects are introduced into the ln( ) term of the equation as shown in Table 5-7, the corrected  $R^2$  is reduced (Table 5-7).

Table 5-2. Initial Equation Used in Regression Analysis on Agency Statistical Data

<u>Model</u>	<u>Equation</u>
A1	$K_i = \sum_{j=1}^N S_{ij} [A_j + B_j \text{EXP}[C_j X_i]] + \epsilon$
A2	$K_i = \sum_{j=1}^N A_j [S_{ij}] + \sum_{j=1}^N B [S_{ij} \text{EXP}[C_j X_i]] + \epsilon$
A3	$K_i = \sum_{j=1}^N A_j [S_{ij}] + \sum_{j=1}^N B_j [S_{ij} \text{EXP}[C X_i]] + \epsilon$
A4	$K_i = A + \sum_{j=1}^N B_j [S_{ij} \text{EXP}[C_j X_i]] + \epsilon$
A5	$K_i = \sum_{j=1}^N A_j [S_{ij}] + B [\text{EXP}[C X_i]] + \epsilon$
A6	$K_i = A + B [ \sum_{j=1}^N S_{ij} \text{EXP}[C_j X_i] ] + \epsilon$
A7	$K_i = A + \sum_{j=1}^N B_j [S_{ij} \text{EXP}[C X_i]] + \sigma$
A8	$K_i = A + B [\text{EXP}[C X_i]] + \epsilon$

PARAMETERS:  $K_i$  = employees/GI for agency i

$S_{ij}$  = fraction of agency i's GI in media j

$X_i$  = agency i's GI

Table 5-3. Equation and Results for Model A5

Equation:

$$K_i = \sum_{j=1}^N A_j [S_{ij}] + B[\text{EXP}[CX_i]] + \epsilon$$

<u>Media</u>	<u>Coefficient</u>	<u>Value</u>	<u>T-Statistic</u>
business press	A1	1.773	3.05445
direct mail	A2	2.444	2.76429
farm publications	A3	2.447	2.33933
magazines	A4	.882	1.93068
newspapers	A5	4.337	6.91809
point of purchase	A6	5.987	1.98377
radio	A7	3.219	4.20557
TV	A8	1.933	6.07922
outdoor	A9	5.959	4.02913
other	A10	3.530	8.83904
	B	3.53829	4.73178
	C	-5.79648	3.43794

Corrected  $R^2$  = .5814

Burbin Watson (0) = 1.95

Sum of Squared Residuals = 52.997

F(ii/82) = 12.743

Standard Error = .8039



Table 5-4. Test of Significance of Including Media Mix Effects in the Asymptote of the Regression Equation

$$F(DF_R - DF_U, DF_U) = \frac{(SSR_U - SSR_R)(DF_R - DF_U)}{SSR_U/DF_U}$$

DF = degrees of freedom

SSR = sum of squared residuals

subscript R = restricted, fewer coefficients

subscript U = unrestricted, more coefficients

Model 1

$$DF_R = N - 3 = 94 - 3 = 91$$

$$SSR_R = 77.582$$

Model 2

$$DF_U = N - 5 - 3 = 94 - 10 - 2 = 82$$

$$SSR_U = 52.997$$

The test statistic is  $F(9/82) = 3.9039$

Table 5-5. Second Set of Equation Used in Regression Analysis on Agency Statistical Data

Model

$$B1 \quad \ln (K_i) = \sum_{j=1}^N A_j S_{ij} + \sum_{j=1}^N B_j \ln [S_{ij} X_i] + \epsilon$$

$$B2 \quad \ln (K_i) = A + \sum_{j=1}^N B_j \ln [S_{ij} X_i] + \epsilon$$

$$B3 \quad \ln (K_i) = \sum_{j=1}^N A_j S_{ij} + B[\ln[X_i]] + \epsilon$$

$$B4 \quad \ln (K_i) = A + B[\ln[X_i]] + \epsilon$$

PARAMETERS:

$K_i$  = employees/GI for agency i

$S_{ij}$  = fraction of agency i's GI in media j

$X_i$  = agency i's GI

Table 5-6. Results for Model B1

Equation:

$$\ln (K_i) = \sum_{j=1}^N A_j S_{ij} + \sum_{j=1}^N B_j \ln [S_{ij} X_i] + \epsilon$$

<u>Media</u>	<u>Coefficient</u>	<u>Value</u>	<u>T-Statistic</u>
businesspress	A1	.49962	1.41794
direct mail	A2	1.55173	2.69617
farm publications	A3	1.42642	2.39632
magazine	A4	.05840	.15331
newspapers	A5	1.4777	3.68612
point of purchase	A6	3.14293	1.93227
radio	A7	.85821	1.75667
TV	A8	.19716	.72717
outdoor	A9	.53608	.68376
other	A10	.71402	2.00688
businesspress	B1	-.00867	-.58416
direct mail	B2	-.03324	-1.37760
farm publications	B3	-.01177	-.61132
magazines	B4	.00431	.22098
newspapers	B5	-.0465	-1.22911
point of purchase	B6	-.02408	-1.04817
radio	B7	.00412	.13366
TV	B8	.00035	.01416
outdoor	B9	.04334	2.53178
other	B10	.00372	.24866

Corrected R<sup>2</sup> = .39183

Durbin Watson (0) = 1.84

Sum Squared Residuals = 7.065

F(19/74) = 4.154

Standard Error = .3090

Table 5-7. Results for Model B2

Equation:

$$\ln(K_i) = A + \sum_{j=1}^N B_j \ln[S_{ij} X_i] + \epsilon$$

<u>Media</u>	<u>Coefficient</u>	<u>Value</u>	<u>T-Statistic</u>
	A	.80232	4.69932
businesspress	B1	-.02538	-2.18898
direct mail	B2	-.09979	-1.33885
farm publication	B3	-.00148	-.10234
magazine	B4	-.04115	-2.8998
newspaper	B5	.02905	1.04859
point of purchase	B6	-.00479	-.33196
radio	B7	.00655	.2554
TV	B8	-.04885	-2.7389
outdoor	B9	.03867	2.84755
other	B10	.00388	.383

Corrected R<sup>2</sup> = .25806

Durbin Watson (0) = 1.93

Sum Squared Residuals = 9.668

F(10/83) = 4.235

Standard Error = .3413

Table 5-8. Results of Model B3

Equation:

$$\ln(K_i) = \sum_{j=1}^N A_j S_{ij} + B[\ln[X_i]] + \epsilon$$

<u>Media</u>	<u>Coefficient</u>	<u>Value</u>	<u>T-Statistic</u>
businesspress	A1	.6407	3.06628
direct mail	A2	1.23253	3.843
farm publications	A3	1.26794	3.33065
magazines	A4	.46844	2.83409
newspapers	A5	1.62426	7.31503
point of purchase	A6	2.13924	1.92674
radio	A7	1.3851	4.88776
TV	A8	.7276	5.3355
outdoor	A10	1.25364	8.60599
other	B	-.0823	-3.36614

Corrected R<sup>2</sup> = .42412

Durbin Watson (0) = 1.79

Sum Squared Residuals = 7.504

F(10/83) = 7.849

Standard Error = .3007

Table 5-9. Results of Model B4

Equation:

$$K = A + B[\ln[X_i]] + \epsilon$$

<u>Coefficient</u>	<u>Value</u>	<u>T-Statistic</u>
A	1.03626	29.6565
B	-.12946	-5.96798

Corrected R <sup>2</sup>	=	.27127
Durbin Watson (0)	=	1.76
Sum Squared Residuals	=	10.526
F(1/92)	=	35.619
Standard Error	=	.3382

This also occurred between Model B3 (Table 5-9) and Model B1 (Table 5-6). When media mix is introduced into the constant term (Model B3, Table 5-9), the corrected  $R^2$  is increased. This is true of the transition between model B4 (Table 5-8) and Model B3 (Table 5-8) as well as between Model B2 (Table 5-7) and Model B1 (Table 5-6). An F test was performed to determine if the addition of more coefficients statistically improved the fit of the model. The results, as summarized in Table 5-10, seem to indicate that media mix effects do not significantly improve the fit when used to modify the elasticity term. They do contribute to the equation when used to modify the scale term — coefficient A in Model B4.

As mentioned earlier in this section, Model B4 suffers from the deficiency of approaching an asymptote of zero. This is intuitively a weak point given the shape of Figure 5-1. A test of this weakness can be made by plotting the regression residuals for Models A5 and B3. These two equations are being compared because they attained the best fit among their respective formats — non-zero vs. zero asymptote. The residual plot for A5 (Figure 5-3) appears to display very little systematic influence. The residual plot for A3 (Figure 5-4) however does appear to have a systematic component. On the basis of the residual plots equation A3 appears superior for avoiding systematic over or under estimation.

#### 5.4 Analysis-of Regression Results

The regression results of Model A1 appear to indicate that large agencies do benefit from economies of scale. One measure of this effect is the maximum reduction in the NEMP/GI ratio that a firm could realize. This can be calculated as follows:

$$\begin{aligned} \text{** maximum NEMP/GI} &= C1 + C2 \cdot \text{EXP}(C3 \cdot 0) \\ &= C1 + C2 \end{aligned}$$

$$\begin{aligned} \text{minimum NEMP/GI} &= C1 + C2 \cdot \text{EXP}(C3 \cdot \infty) \\ &= C1 \end{aligned}$$

$$\begin{aligned} \text{maximum reduction in NEMP/GI} &= \frac{C1 + C2 - C1}{C1 + C2} \\ &= \frac{C2}{C1 + C2} = 62\% \end{aligned}$$

\*\* Refer to Table 5-1 for coefficient definitions.

A second way of viewing this effect is to calculate the value of GI at which an agency will be within 1% of its minimum cost. This can be calculated as follows:

$$D = .01, \text{ (1\% differential above maximum scale economy)}$$

$$(1 + D)C1 = C1 + C2 \cdot \text{EXP}(C3 \cdot X)$$

$$X = \frac{1}{D} \ln \left( \frac{D \cdot C1}{C2} \right)$$

$$X = \text{GI of agency}$$

Various values of D can be used to determine the range of GI in which agencies begin to reach their maximum efficiency as listed here:

<u>D</u>	<u>Necessary GI of Agency</u>	<u>Approximate Billing Size of Agency</u>
.01	\$970,110	\$6,467,400
.02	838,257	5,588,380
.03	761,129	5,074,193
.04	706,405	4,709,367
.05	663,958	4,426,387



Table 5-10. Significance Tests as the Addition of More Coefficients to the Second Set of Regression Models

Test of Significance Between  
Model and Model

B4	B2	$F(9, 83) = .81843$
B4	B3	$F(9, 83) = 4.5177$
B3	B1	$F(9, 74) = .5109$
B2	B1	$F(9, 74) = 3.029$

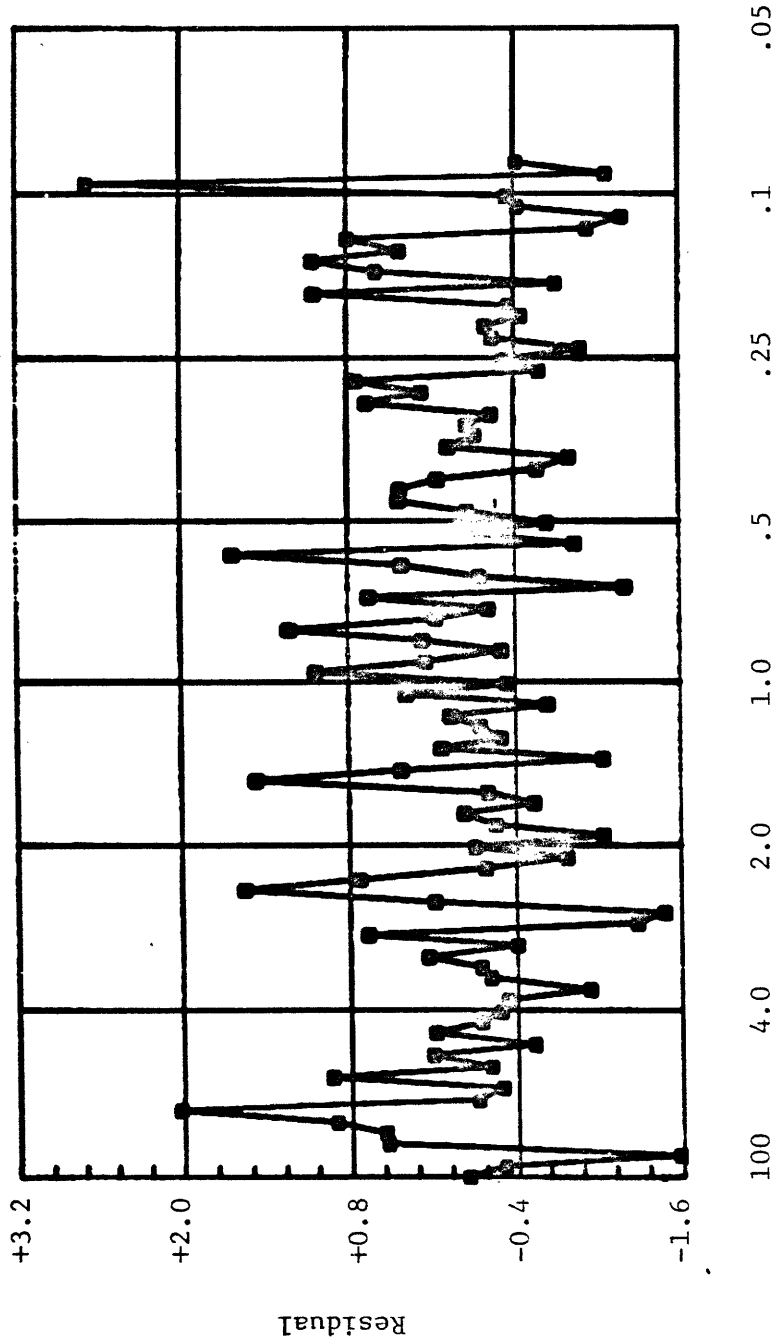


Figure 5-3. Plot of Regression Residuals For Model A5

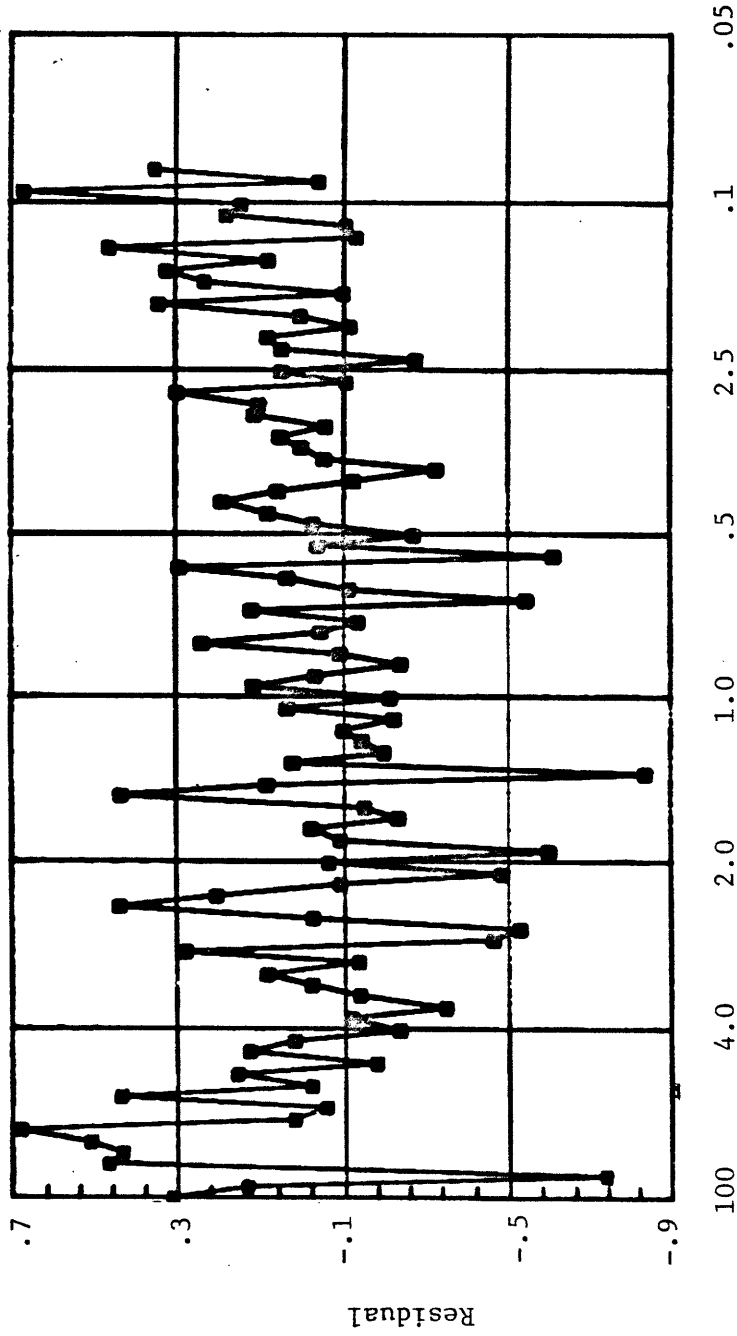


Figure 5-4. Plot of Regression Residuals For Model B3

The billing size of the agency listed above was calculated by dividing GI by .15 — the typical media commission rate. The above data appears to imply that economies of scale effects take place mostly below the \$4 to \$6 million ranges billings.

In Section 3.4.1 of this thesis, it was mentioned that in the 1950's the billings range of \$3 to 15 million was viewed as a difficult range in which agency costs rose more rapidly than revenue. Published media cost indices<sup>68</sup> can be used to inflate this billings range estimate to present day estimates (circa 1978). In today's terms, the equivalent range is approximately between \$7 and \$36 million in billings. This does not match the data presented above, which indicates that the NEMP/GI ratio stabilizes in billings ranges above \$4 to \$6 million.

If there were a range of billings in which costs suddenly increased faster than revenue, one might expect to observe the NEMP/GI ratio to initially decrease for small agencies. However, a second peak should occur in the "danger zone" of \$7 to \$36 million. This would be approximately the GI range of \$1 to \$5.5 million. Looking at Figure 5-1 one does see a bulge in the region of \$1 million GI. However, when media effects are added (Model A5, Table 5-3) to the regression equation and the regression residuals graphed versus agency size (Figure 5-3), a mid-range bulge is not immediately apparent. Thus statistical evidence supporting a "danger zone" for agency growth has not been found. One must admit, however, that visual interpretation of residual plots is subject to the bias of the viewer.

The F test on the regression results of Models A8 and A5 indicate that media mix does affect the NEMP/GI ratio of ad agencies. In

particular, equation A5 demonstrates their effect on the minimum value of the employee/GI ratio. Unfortunately, the media effect on the exponential coefficients in Models A1 through A8 could not be estimated due to the limitations of the statistical software used in the analysis. Models B1 through B4 attempted to solve this problem by linearizing the equations. The resulting regressions did not demonstrate a media effect on the cost elasticity term however. An effect was demonstrated on the scale term (EXP[A], Model B3).

As the  $A_i$  coefficient in Model B3 becomes more positive, the effect on the associated media  $i$  is to increasingly raise the NEMP/GI ratio for a given GI level. Likewise, in Model A5, increasingly positive values for  $A_j$  result in larger values for the NEMP/GI asymptote. Thus while the formats of Models A5 and B3 are different, it is interesting to compare the rank ordering of media effect on NEMP/GI between the two models. Table 5-11 accomplishes this by sequentially ordering the  $A_i$  (Model B3) and  $A_j$  (Model A5) coefficients. Although the rank ordering changes slightly between models, three groups of media emerge as consistent subgroups:

<u>Group</u>	<u>Media</u>
1	magazine business press TV
2	direct mail other farm publications radio
3	newspapers joint of purchase outdoor

Table 5-11. Rank Order of Media Effects

Model A5		Model B3			
Coefficient	Value	Media	Media	Value	Coefficient
A4	1.882	magazine	magazine	.4684	A4
A1	1.773	business press	business press	.6407	A1
A8	1.993	TV	TV	.7276	A8
A2	2.444	direct mail	direct mail	1.2325	A2
A3	2.447	farm publications	other	1.2536	A10
			farm publications	1.2679	A3
A7	3.219	radio	radio	1.3851	A7
A10	3.530	other			
A5	4.337	newspaper	newspapers	1.6242	A5
A9	5.959	outdoor	point of purchase	2.1392	A6
A6	5.987	point of purchase	outdoor	2.2872	A9

The results of the regression analysis appear to imply that group 3 media require a higher NEMP/GI ratio than other media. One might conjecture that smaller agencies might choose to specialize in those media which require fewer personnel per dollar of revenue. This premise can be tested by calculating the mean percent of an agency's billings derived from a given media, and observing how this varies with agency size. Table 5-12 does this. From a visual inspection it appears that as agency size increases, the percent of billing derived from direct mail, newspaper, point of purchase, and radio generally decreases. However, the percent of billing derived from outdoor and TV appear to rise. Since TV had one of the lower values in Table 5-11, this implies it has a low NEMP/GI ratio. By earlier conjecture this might lead one to expect that small agencies might prefer to specialize in this medium. However, Table 5-12 indicates that TV is handled mostly by large agencies. This paradox might be explained by the actions of advertisers. Network TV account sizes may be sufficiently large, such that TV advertisers consciously seek out only the larger agencies for reasons discussed in Section 4.3. Thus economies of scale may have little effect on whether a small agency breaks into the TV medium. With regard to the other media, there does not appear to be a strong trend wherein media with a high NEMP/GI ratio (point of purchase, newspapers, etc.) are handled only by large agencies.

What is interesting to discuss is why media would have different NEMP/GI ratios. One point to note is that the media with low NEMP/GI (magazines, business press, TV) appear to be national in nature while the high NEMP/GI media (newspapers, point of purchase, outdoor) appear to

Table 5-12. Mean Percent of Agency Billings Derived from a Specified Media

Media	Agency Billing Size Range (Billings in \$ Millions)			
	\$619 to \$18	\$18 to 4.7	\$4.7 to \$1.7	\$1.7 to \$.44
business press	6.40% (10.79)**	11.76% (12.61)	13.28% (18.7)	6.85% (12.57)
direct mail	1.60 (8.0)	2.25 (6.41)	2.92 (12.03)	6.05 (13.08)
farm publications	.87 (2.40)	.62 (2.05)	4.2 (10.24)	3.68 (13.83)
magazine	17.89 (9.65)	17.47 (17.41)	14.00 (20.32)	17.97 (19.36)
newspapers	10.52 (6.55)	12.404 (9.16)	13.16 (9.49)	24.45 (23.57)
point of purchase	.61 (1.89)	1.25 (3.33)	1.72 (2.01)	1.68 (4.27)
radio	8.09 (6.43)	12.41 (11.38)	15.00 (13.34)	15.03 (13.73)
TV	40.07 (24.13)	28.07 (26.55)	19.40 (18.22)	9.39 (10.18)
outdoor	4.35 (9.11)	2.02 (4.23)	2.00 (2.53)	2.99 (4.13)
other	9.60 (19.82)	11.75 (19.54)	14.32 (20.74)	11.91 (21.25)

\*\*The numbers in parentheses are the standard deviation for the mean directly above it.



operate in a local context. This is pure conjecture of course but the media which operate in a national context may permit the greater centralization of ad campaign planning, copy design and research staff. Media operating in a local context may require greater in-depth knowledge of the fractionalized local markets. They may therefore not permit the degree of centralization of ad agency staff that national media afford, and thus might not permit economies of scale through consolidation of staff.

A second point of conjecture is that all media expenditures may not respond equally with swings in the general economy. Modern finance theory states that investors determine the rate of return they demand for a given project by the amount of risk in a project that is systematically related to the overall economy. If the various media contained different systematic risk components they should have different rates of return. Thus their revenue and expense ratios would differ. This is a very unsophisticated argument and it mixes accounting (revenue, expense) with cash concepts. However, it is only meant as a possible explanation for some media to apparently be more lucrative than others.

In summary, regression analysis on ad agency statistical data appear to demonstrate that economies of scale effects do take place. One cross check on the equations estimated in this thesis can be found in a study performed by the management consultants, Rubel & Hymphrey in Chicago. Their study calculated a NEMP/GI ratio for various agency sizes based on actual agency financial data. This data is listed in Table 5-13 along with a predicted value for NEMP/GI based on the equation estimated for

Table 5-13. Comparison of Predicted and Published Data for Employees/Gross Income

<u>Agency Gross Income (\$000,000)</u>	<u>Predicted By Model 1 *</u>	<u>Published Data ***</u>
.15	4.38	>4.0 **
.45	2.89	>3.4
.75	2.59	>3.0
1.50	2.51	>3.0
2.25	2.51	>3.2
3.0	2.51	>2.6
6.0	2.51	

\* Model 1 is located in Table 5-1 of this thesis.

\*\* These data points are presented as being applicable for a range of gross income. Thus, for agencies with gross income between \$150,000 and \$450,000, the employee/GI number is 4.0.

\*\*\* Data taken from: "Study Shows Agency Profits Up, Payroll Down", Advertising Age, May 14, 1979, p. 10.

Model A1 (Table 5-1) in this thesis. The predicted values for NEMP/GI appear to approach the asymptote much earlier than the Rubel & Humphrey data indicates. It is encouraging, however, to see that both data sets appear to approach the range of 2.5 for the minimum value of NEMP/GI.

## CHAPTER 6

## CONCLUSION

The environmental factors discussed in Chapter 3, and the merger motives covered in Chapter 4 of this thesis are supported at best with circumstantial evidence. Nevertheless many of them do sound plausible (e.g., size stigma, risk reduction) in the context of the typical advertising agency. However, the statistical data presented in Chapter 5 does lend strong support to the premise that economies of scale do accrue to the larger agencies. Thus, behind all of the vague reasons voiced by agency executives, may be a rational economic justification to seek growth through merger — economies of scale.

Of course this doesn't answer the question as to why mergers occurred in waves. This thesis attempted to address that question by identifying environmental factors peculiar to the periods of heightened merger activity. I acknowledge that the evidence is suggestive at best. However the motives advanced for the merger waves of 1958 (appearance of TV) and the late 1960's (growing international opportunity, diversification) do sound plausible. However, the motives advanced in explanation of the late 1970's wave appear weakest. It is not apparent as to why increased cash flow to ad agencies should cause more mergers. The buying power of the increased cash flow should be negated by the increased market value of the available agencies — unless large and small agencies are differentially affected. This could be a good point for further investigation. Unfortunately it is beyond the scope of this thesis.

APPENDIX A

AD AGENCY MERGER DATA  
ORGANIZED BY YEAR OF  
MERGER COMPLETION

Table A-1. 1950.

## Mergers Completed in 1950

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
1	John O'Rourke & Associates + Alport Associates	NA**	NA
2	Anderson Davis & Platte + John A. Cairns Company	NA	NA
3	HI Neuwoehner Advertising Company + Eggers-Rankin Advertising Service	NA	NA
4	Bayless-Kerr Company + Don Fairchilds, Inc.	NA	NA
5	Harry Bortnick Advertising Agency + Theodore Barkus Advertising Agency	NA	NA
7	Calkins & Holden + Carlock, McClinton & Smith	NA	NA
8	R.H. Cary Inc. + James L. Hill Company	NA	NA

\*\* NA = not available.

Table A-1. 1950. (Cont.)

## Mergers Completed in 1950

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
9	W.C. Jeffries +	NA	
	J.T. Crosslex	NA	NA
10	Devine & Brassard, Inc. +	NA	
	Moore & Cline Agency	NA	NA
11	Devine & Brassard, Inc. +	NA	
	Charles H. Kimble Agency	NA	NA
12	Blaker Advertising Agency +	NA	
	Redfield & Johnstone, Inc.	NA	NA
13	Duncan Jennings Advertising Agency +	NA	
	Arnold Advertising Agency, Inc	NA	NA
14	J.M. Hickerson, Inc. +	NA	
	Albert Frank Guenther Law, Inc.	NA	NA
15	Griffith Advertising Agency +	NA	
	R.E. McCarthy Advertising Agency	NA	NA

Table A-1. 1950. (Cont.)

Mergers Completed In 1950

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
16	Kieseletter, Wetterau & Baker + Lawrence Roberts Company	NA	NA
17	Bannan & Sandler Advertising + J. David Rutledge Advertising	NA	NA
18	Lee-Stockman, Inc. + Marcel Schulhoff & Co.	NA	NA
19	A.W. Lewin Company + Williams and Saylor Company	NA	NA
20	Lockwood-Shackelford Company + Robert W. Boone Advertising Agency	NA	NA
21	Chris Lykke & Association + William J. Wilkin Company	NA	NA
22	MacGruder, Bakewell & Kostka, Inc. + W.W. MacGruder Inc.	NA	NA
23	Paramount Advertising Agency + Hedrick & Towne Advertising Agency	NA	NA



Table A-1. 1950. (Cont.)

Mergers Completed in 1950

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
24	Patton-Haggerty Organization + Sullivan Advertising Agency	NA	NA
25	Ross Roy, Inc. + C.C. Fogarty Company	NA	NA
26	Ross Roy, Inc. + Zeder-Talbot Advertising Agency	NA	NA
27	Schuyler Hopper Company + Van Diver & Crowe	NA	NA
28	Chernow Company, Inc. + Williams Advertising Agency Inc.	NA	NA
29	Ralph Yampert Organization + Macaulay Company + Phil D. McHugh Company + Prochnow Company	NA	NA

Table A-2. 1954.

## Mergers Completed in 1954

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
1	Lewin, Williams & Saylor + Green Brodie	NA	NA
2	Caldwell, Larkin & Co. + Siedener & Van Riper Inc.	NA	NA
3	Roswell & Clark + Fogel & Kramer	NA	NA
4	Marschalk & Pratt + McCann-Erickson	NA	NA
5	John Falkner Arndt & Company + Lamb & Keen	NA	NA
6	McMillian & Marsden + Shattuck & Clifford	NA	NA
7	Doyle Dane Bernback + Factor-Breyer	NA	NA

Table A-2. 1954. (Cont.)

		Mergers Completed in 1954		
Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)	
8	Kraft Advertising	NA		
	+ Honig-Cooper	NA	NA	
9	Potts-Turnbull	NA		
	+ Rogers & Smith	NA	NA	
10	McCann-Erickson	110		
	+ Wilkinson-Schiwetz & Tips	NA	NA	
11	McCarty Co.	NA		
	+ Laughlin-Wilson-Baxter Inc.	NA		
	+ Russ Jergens Advertising	NA	NA	

Table A-3. 1958.

Mergers Completed in 1958

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
1	Seven Thornblad Sales Engineering Company +	NA	NA
	F.P. Walther Jr. & Associates	NA	NA
2	Fradkin Advertising +	NA	NA
	Cole, Fischer & Rogow	NA	NA
3	Burke Dowling Adams Inc. +	NA	NA
	J. Howard Allison & Co.	NA	NA
4	Silton Bros. +	NA	NA
	Callaway Associates	NA	NA
5	Livingstone Porter Hicks +	NA	NA
	Howell & Young Advertising	NA	NA
6	Honig-Cooper Co. +	NA	NA
	Dan B. Miner Co.	NA	NA
7	Abbott Kimball Co. +	NA	NA
	Grant Advertising	NA	NA

Table A-3. 1958. (Cont.)

Mergers Completed in 1985

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
8	Locke, Johnson & Co. + Harold F. Stanfield Ltd.	NA	NA
9	Picard-Marvin Inc. + Richard La Fond Advertising	NA	NA
10	Copley Advertising + Robotham Advertising	NA	NA
11	Marvin Gordon & Associates + Henry M. Hempstead Co.	NA	NA
12	Creative Marketing Associates + MacFarland Advertising	NA	NA
13	Liller, Neal & Battle + Lindsey & Co.	NA	5
14	The Counsellors Group + Gresh & Dramer	NA	NA

Table A-3. 1958. (Cont.)

## Mergers Completed in 1958

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
15	David G. Wolaver Advertising + Balwin & Walker	NA	NA
16	Carvel, Nelson & Powell + Compton Advertising	NA	NA
17	Gerth-Pacific Advertising + Clark & Elkus Advertising + Byron H. Brown & Staff	NA	NA
18	Abbott Kimball Co. + Grant Advertising	6	90
19	Burke Co. + Grant Advertising	NA	NA
20	Julian R. Besel & Associates + Van Der Boom	NA	NA
21	Roland McCreary Advertising + Griffith Advertising	NA	NA

Table A-3. 1958. (Cont.)

Mergers Completed in 1958		Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
22	Kastor, Farrell, Chesley & Clifford + Hilton & Riggio	NA	NA	15
23	Klau-Van Pietersom-Dunlap + Critchfield & Co.	NA	NA	NA
24	E.W. Shafer & Co. + MacFarland Advertising	NA	NA	NA
25	Reach, McClinton & Co. + Banning Co.	NA	NA	NA
26	Merchandising Factors + Lennen & Newell	NA	NA	NA
27	Seklemian & North + Calkins & Holden	NA	NA	16
28	Brooke, Smith, Frency & Dorrance of the Pacific Coast + Harrington, Richards & Morgan + Fletcher D. Richards Inc.	2.2	NA	NA

Table A-3. 1958. (Cont.)

## Mergers Completed in 1958

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
29	Randy Advertising +	NA	
	Fletcher D. Richards Inc.	NA	NA
30	C.B. Juneau Inc. +	NA	
	Allen & Marshall Advertising	NA	NA
31	Goldthwaite-Smith Advertising +	NA	NA
	Compton Advertising	NA	NA
32	Alfred L. Lino & Associates +	NA	
	Fuchs, Zemp & Celandar	NA	NA
33	Cheshire Advertising +	NA	
	Bernard B. Schnitzer Inc.	NA	NA
34	Lennen & Newell +	NA	
	C.L. Miller Co.	NA	NA
35	Fradkin Advertising +	NA	
	Kameny Associates	NA	NA



Table A-3. 1958. (Cont.)

## Mergers Completed in 1958

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
36	Goodman Advertising + Stiller, Rouse & Hunt	NA	NA
37	H.M. Gardner & Associates + Dreyfus Co.	NA	NA
38	Buchanan & Co. + Lennen & Newell, New York	NA	NA
39	Charles J. Charney & Co. + Carl S. Leeds Co.	NA	NA
40	Heintz & Co. + Roy S. Durstine of California	NA	10
41	Posner-Zabin Advertising + Loewy-Stempel Advertising	NA	NA
42	Betteridge & Co. + Bingham Technical Advertising	NA	NA
42	Castle-Werner + Clark & Bobertz	NA	NA

Table A-3. 1958. (Cont.)

## Mergers Completed in 1958

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
43	Peck Advertising + W.B. Doner & Co.	NA	20
44	Alfred J. Silberstein-Bert Goldsmith Inc. + North Advertising	NA	NA
45	Lee Donnelley Co. + John B. Hickox Inc. + Clark & Bobertz	NA	NA
46	W. Robert Mitchell Inc. + J. Voorhies Advertising	NA	NA
47	Bear Advertising & Associates + R.H. Buss & Associates	NA	NA
48	Emil Mogul Co. + Lewin Williams & Saylor	NA	18
49	J.R. Pershall Co. + Reach, McClinton & Co.	2,000	NA

Table A-3. 1958. (Cont.)

Mergers Completed in 1958

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
50	Hoffman & York + Paulson & Gerlach	NA NA	NA
51	Kastor, Hilton, Chesley & Clifford + Atherton & Currier	NA NA	18
52	Geyer Advertising + Morey, Humm & Warwick	NA NA	NA
53	Keyes, Madden & Jones + Donahue & Coe	NA NA	NA
54	Reach, McClinton & Co. + H.B. Humphrey, Alley & Richards	NA NA	NA
55	Gardner Advertising Co. + Paris & Pearl	NA NA	35

Table A-4. 1962.

Mergers Completed in 1962

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
1	W.B. Doner Inc. + Lester Harrison Inc.	NA	6
2	Wesley Assoc. + Mann-Ellis	NA	10
3	Bauer & Tripp + Richard A. Foley Advertising Agency	NA	4
4	Reach McClinton & Humphrey + Charles Sheldon Inc.	NA	1.6
5	Keyes Madden & Jones + Post Morr & Gardner	NA	30
6	Maxon Inc. + Adams & Keyes	35	4
			39

Table A-4. 1962. (Cont.)

Mergers Completed in 1962			Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
Merger Number	Agency Name			
7	ERA Holding Co.		2.7	
	+ Smith & Dorian		1	
	+ Tech and Graphics		.1	
	+ Phillips Gaines Inc.		.1	
	+ Shafer & Shaw		.1	4

Table A-5. 1966.

Mergers Completed in 1966

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
1	Rumrill Co. + Charles W. Hoyt Co.	22 8	30
2	Ted Bates + AC&R	360 2	362
3	Geyer, Morey, Ballard + Maxon Inc.	58 6	62
4	Henderson Advertising + Walker Saussy Advertising	7.3 3.17	9.6
5	William I. Tracy Co. + Tobey Crothers & Dorman	NA NA	NA
6	Marstellar Inc. + Frosen Advertising + Williard G. Gregory & Co.	35.9 3.5 1	40.4
7	Van Brunt & Co. + Gotham-Vladimir	3 4	7

Table A-6. 1970.

## Mergers Completed in 1970

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
1	Clinton E. Frank +	56	
	Turnbull & Allum	4	60
2	Carr Liggett Advertising +	8	
	Rodgers & Company	1.5	9.5
3	Shaw Elliot Inc. +	4	
	Rockford Inc.	1	5
4	Ackerman Advertising +	.75	
	Howard Mont Association	NA	NA
5	McCann-Erickson +	478.5	
	Mathisson & Company	1.1	489.5
6	Boze & Jacobs +	32	
	Reach McClinton & Company	18	50
7	MacManus, John & Adams +	125.8	
	D'Arcy Advertising	102	227.8
8	Ross, Roy Inc. +	37	
	Zimmer, Keller & Calvert	6.25	43.25

Table A-7. 1972.

Mergers Completed in 1972

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
1	N.W. Ayer & Sons + Rink, Wells & Association	51 10.7	61.7
2	Interpublis + Campbell-Ewald	741 121.8	862.8
3	Barlow/Johnson Inc. + Barber & Drullard	5 7	12
4	Lewis Advertising + Town Advertising	NA NA	NA
5	Communicore + Orenstein Advertising	NA NA	NA
6	Hoffman-York + Baker/Johnson/Dickinson	12.1 5	17.1



Table A-8. 1974.

## Mergers Completed in 1974

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
1	Dunsenberry, Ruriani Kornhauser Inc. + Clyne Maxon Inc.	4.8 35.2	40
2	Hoffman, York, Baker & Johnson + Klau-Van Pieteron-Dunlop Inc.	17 10	27
3	Bozell & Jacobs Inc. + Richardson Seigle Rolfs & McCoy Inc. + Glenn Advertising Inc. + Oakland Griffin Groups Inc.	58 15 29.1 3	105.1
4	Ketchum, MacLeod & Grove, Inc. + Oneill, Price, Anderson, Fouchard, Inc.	138.3 2.9	141.2
5	Foote, Cone & Belding + Jennings & Thompson + Honig-Cooper & Harrington	327 6.5 38	371.5

Table A-8. 1974. (Cont.)

## Mergers Completed in 1974

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
6	Young & Rubican	563.5	
+	Rives, Dyke and Company Inc.	8.5	
+	W.R. Zemp & Association	8	
+	Wunderman, Ricotta & Kline	35	
+	Creswell, Munsell, Schubert & Zirbell	NA	
+	Sudler & Hennessey	35	
+	Bruce B. Brewer Co., Inc.	13	NA
7	J. Walter Thompson	767	
+	Lord Geller Frederico	10	777
8	Ogilvy & Mather	450	
+	Hodes-Daniel Inc.	NA	NA

Table A-9. 1976.

## Mergers Completed in 1976

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
1	Young & Rubicam + Buchen, Reincke +	696.6 15	
2	Cafo Jonson Bozell & Jacobs +	NA 116	NA
3	Stan Levenson Associates, Inc. Doyle Dane Bernback Inc. +	2.25 335	118.25
4	Doran, Stein & Grey + Rapp, Collins, Stone & Alder, Inc. Ketchum, MacLeod & Grove, Inc. +	4 18 152.3	337
5	Báchrach Advertising Creamer, Colarossi, Basford Inc. +	NA 30	NA
6	Fuller & Smith & Ross, Inc. Daniel E. Kirk, Inc. +	20 4	50
7	Smith, Smith, Baldwin Cunningham & Walsh, Inc. +	11 107	.15
	Lizardi & White	NA	NA

Table A-9. 1976. (Cont.)

Mergers Completed in 1976

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
8	Earle Ludgin & Company + Walters & Simmons	12	25
9	Provandie, Eastwood & Lombardi, Inc. + Chirug & Cairns	5	12
10	Leber Katz + Chirug & Cairns	75	82
11	Draper Daniels Inc. + Arthur & Wheeler Inc.	NA	21

Table A-10. 1978.

## Mergers Completed in 1978

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
1	Batten, Barten, Durstine & Osburne + Franklin Spire Inc. +	610.5 7	629.5
2	Hall Butler Blatherwick, Inc. + Ketchum, MacLeod & Grove, Inc. + Keenan & MacLaughlin Inc.	12 185 17.3	202.3
3	Compton Advertising Inc. + Rumrill-Hoyt Inc.	393.5 50	443.5
4	Norman, Craig & Kummel, Inc. + Ted Barash & Company Inc.	251.3 9	260.3
5	Young & Rubicam + Smith, Smith, Baldwin & Carlberg +	932.8 11	956.8
6	Stone & Adler Inc. + Ted Bates & Co. Inc. +	13 600	737
7	Stern Walters/Earle Ludgin Inc. + Doyle Dane Bernback Inc. +	27 485	
	Ally & Gargano, Inc.	50	535

Table A-10. 1978. (Cont.)

## Mergers Completed in 1978

Merger Number	Agency Name	Agency Billings (\$ Millions)	Billings Per Merger (\$ Millions)
8	Bozell & Jacobs + Page/Schwesinger Inc.	170 NA	NA
9	Marstellar, Inc. + Lando	240 NA	NA
10	Cunningham & Walsh Inc. + Post-Keyes-Gardner	137 80	217
11	Della, Femina, Travisano & Partners, Inc. + Van Leeuwen & Partners	57.6 15	72.6
12	Meldrum and Fewsmith Inc. + Butterfield, Casey Knaus & Partners	28 NA	NA
13	McKinney, Inc. + Stevens-Kirkland-Kreer, Inc.	10 NA	NA
14	Liller, Neal, Battle & Lindsey, Inc. + Weltin Advertising Agency, Inc.	NA 10	NA
15	LaFond Associates Inc.	1.5	3.0

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