CHAPTER 1
INTRODUCTION

In the U.S., the service industry in 1995, of which advertising is part of, accounted for 72 percent of Gross Domestic Product (GDP) (World Development Report, 1996). The U.S. service industry employed 79 percent of the workforce (Bureau of Economic Analysis, 1993). The U.S. balance of trade in services has posted positive figures since the 1980’s.

Since its first stirrings in the 19th century, the American advertising industry, arguably the world’s largest, has boomed and by the nineteen nineties, it contributed to 1.1 percent of U.S. GDP (Adnan, 1994).

Advertising agencies such as Saatchi & Saatchi, Interpublic (now Publicis), the Omnicom Group and the Ogilvy Group in Europe, had more than 27 percent of their gross billings offshore (Zakon, 1988) whilst in America, offshore billings for advertising agency Foote, Cone and Belding accounted for 27 percent of its gross billing. To date, offshore billings have risen to represent over 50% of total billings of leading U.S. agencies (see Appendix B) with Lintas Worldwide and McCann-Erickson Worldwide leading at 85.1% and 75.4 percent respectively (Terpstra and Sarathy, 1997).

More than a century has passed since the birth of Malaysian advertising. In spite of its phenomenal growth - there are now 63 full service accredited advertising agencies (4As, 1998), over 200 advertising and advertising-related agencies and advertising billings has reached its peak of RM2.6 billion in 1997 (AC Nielsen, 1998) - its success pales internationally. Malaysian agencies have yet to prove their mettle whilst international agencies have made landmark contributions such as the FCB grid, the BBDO’s Emotional Measurement System, and the distinctions continue.

Given the internationalisation of the service trade, brought about by factors such as technological advancements namely telecommunications and computers, trade liberalisation of services and intellectual property rights in
the new General Agreement on Trade in Services (GATS) and trade blocs which will enhance multilateral trade relations, the Malaysian advertising industry should have reached the stage of exporting their services as observed both in Europe and the U.S.

This is a worrisome question as the world economy grows increasingly open. Malaysian advertising agencies will now have to compete against international agencies with their years of managerial and international experience. They will need to bolster their competence in order to withstand the ravages of globalisation. The Malaysian advertising industry should seek out the factors that are key to sustaining competitive advantages in a global service market. Are Malaysian ad agencies embracing and practising these factors? Are the Malaysian ad agencies ready for globalisation? Or will the government need to step up its protectionism mechanism in order to save the Malaysian ad industry by giving it more time to develop its competencies?

This paper investigates the current state of competitiveness of Malaysian advertising agencies by looking at their competencies and how they compare to international advertising agencies. It is hoped that the investigation will isolate the key sustainable competitive advantages and that the Malaysian advertising industry would be able to use the information to formulate strategies to compete in an ever increasing globalised environment.

1.1 Objectives of the Study

The objective of this study is to examine whether local Malaysian advertising agencies are globally competent and what are the competitive advantages needed to compete in a global and open economy. The study will first determine what constitutes competitive advantages in terms of factors such as creativity, strategic thinking, resources, capabilities,
speed of response, updatedness or timeliness in areas of knowledge of new technology and processes as well as their order of importance.

The survey will also determine whether these practices are embraced by the local ad agencies and how extensively they are embraced.

1.2 Scope of the Study

In order to get a broader perspective, the study will look at the international or transnational agencies as well as the local agencies. Ideally, the opinions and perceptions of the advertisers or clients should also be solicited to provide the other point of view. This is recommended as a second stage.

1.3 Significance of the Study

This study hopes to reveal the obstacles and to shed light on methods or processes that will help the Malaysian ad industry to sustain a competitive edge in an ever increasing global economy. It is also hoped that the findings will help Malaysian advertising agencies move beyond the domestic market into the international realm, and ultimately earn export dollars and become a significant contributor to the Malaysian GDP.

1.4 Growth of Services Worldwide

The service industry has been growing in importance. In developed economies such as the United States and Japan, services account for 60 percent to 72 percent of the countries’ GDP respectively (World Bank, 1997). Service economies are reportedly more stable than export-led economies as the growth is internally generated and
independent of external trade fluctuations common with commodities or manufacturing (Selwyn, 1991).

Figure 1.1: Annual Percent Change of real GDP, Manufacturing and Services in Developing Countries

![Graph showing annual percent change of real GDP, manufacturing, and services in developing countries from 1980-89 average to 1997.](image)

Source: International Monetary Fund 1998 (Table A5: Developing Countries Real GDP)

Worldwide figures on the developing countries reported rising GDP figures for services with the annual percent change in services showing a consistent upward trend of 2.1 percent in 1990 to 4.8 percent in 1997 (see Figure 1.1). In contrast, the percentage change for real GDP has been hovering around 6-6.5 percent whilst that of manufacturing has been steadily declining from its peak of 9.6 percent in 1994 to 6.5 percent in 1997 (see Appendix A).

The shift from manufacturing to services has been hastened by the increasing pace of mechanisation, automation and technology breakthroughs available to manufacturing processes that has made production processes super efficient and effective. As a result, the shift has also contributed to a decrease in the number of jobs in the manufacturing sector.
The growth of services have been attributed to various factors. Key among
them are technology, services in manufacturing, changing patterns of
government regulations and globalisation (Lovelock, 1996).

Innovations in technology, especially in computers, information technology,
have advanced as well as changed the service Industry. Traditional
channels of distributing information can now be effected through the
Internet. News can be “bought” from various publications over the Internet.
Sales and orders are made through the Internet. New services such as
electronic banking, are being created. Technology has facilitated and
improved the service process and brought about extensive re-engineering in
companies such as IBM, FedEx and many others Credit (Hammer and
Champy, 1993).

Traditional industries such as manufacturing are also developing service-
related centres, once considered as supplementary services into individual
profit centres. EON Bank was set up by Edaran Otomobil Nasional (EON),
the distributor of the Malaysian national car, to tap the hire-purchase market
of car buyers.

Changing patterns of government regulations where price, distribution or
even product attributes were mandated by strict regulations were removed.
In the U.S., government regulations on airfreight, airlines, banking,
insurance and telecommunications were minimised. This has provided the
impetus for growth in these sectors. A similar case in Malaysia could be
drawn from the telecommunications Industry where deregulation has
stimulated sectoral growth with six players, Binariang (M) Sdn Bhd, Celcom
(M) Sdn Bhd, Digi Telecom Sdn Bhd (formerly Mutiara Telecommunications
Sdn Bhd), Perwira Ericsson Sdn Bhd, Adam, Mobifon, instead of being
monopolised by a national telephone company (The Star, 1998).
1.5 Services in Malaysia

In Malaysia, services are showing a similar trend of growth. In 1980, services only contributed to 40.1 percent of the nation’s GDP. Seven years later in 1997, services contributed to 44.7 percent or RM63,084 million (see Appendix B). In contrast, manufacturing contributed only RM50,042 million or 35.5 percent of Malaysia’s GDP in the same year (see Figure 1.2).

Figure 1.2: Contribution of Services to GDP in Malaysia

![Graph showing contribution of services to GDP from 1980 to 1997]

Fin, Ins, RE & BS: Financial, Insurance, Real Estate and Business Services

Services in Malaysia has been registering annual growth rates of 9 percent, increasing in tandem with the country’s GDP. The rate increased to a record high of 9.8 percent in 1993. However, the rate of growth slowed down to 7.9 percent in 1997 (see Appendix B).

Likewise the financial, insurance, real estate and business services sector which includes advertising services, has shown a similar trend. In 1980-1990, the annual growth rate for this sector was 7 percent and rose to an average of 9 percent in the nineteen nineties (see Appendix B). In 1996 this sector recorded a high of 12.7 percent growth rate per annum. However for 1997, the rate dropped to 10.3 percent due to the economic slowdown which started in July 1997.
In Table 1.1, a closer look at the services sectoral contribution in 1997 and 1996 indicates that currently, the biggest sector in the service industry is the wholesale and retail trade, hotels and restaurants at 12.4 percent for both years, followed by finance, insurance, real estate and business service at 11.7 percent (11.3 percent in 1996). However, the fastest growth is observed in the finance, insurance, real estate and business group at 11.5 percent in 1997 (14.6 percent in 1996).

**TABLE 1.1**
**MALAYSIA- SERVICE SECTORAL PERFORMANCE IN CONSTANT 1978 PRICES**

<table>
<thead>
<tr>
<th>Service</th>
<th>Share of GDP</th>
<th>Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity, Gas and Water</td>
<td>2.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Transport, Storage and Communications</td>
<td>7.4</td>
<td>7.6</td>
</tr>
<tr>
<td>Wholesale &amp; Retail trade, Hotels, Restaurants</td>
<td>12.4</td>
<td>12.4</td>
</tr>
<tr>
<td>Finance, Insurance, Real Estate &amp; Business Service</td>
<td>11.3</td>
<td>11.7</td>
</tr>
<tr>
<td>Government Services</td>
<td>9.1</td>
<td>8.8</td>
</tr>
<tr>
<td>Other Services</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>TOTAL SERVICES</strong></td>
<td><strong>44.8</strong></td>
<td><strong>45.0</strong></td>
</tr>
</tbody>
</table>

*Source: Economic Report 97/98*

Export of tradeable services (excluding investment income received) increased by 25.7 percent in 1996. Import of tradeable services stood at 16.9 percent. However the balance of services has remained negative since 1980's and has remained around negative RM20 million since 1995 (Bank Negara, 1998). The only service sector that registers positive figures is the travel and education businesses.

In tandem with the growth of services, a similar trend of positive growth is observed with employment statistics. In 1990, the services sector employed only 2.7 million workers, representing 39.8 percent of the total workforce in Malaysia. In 1997, the services sector was responsible for 46.2 percent (4.0
million) of total labour employment, representing a 6.5 percent increase over the seven year period (see Figure 1.3 and Appendix B).

Figure 1.3 : Employment in Services Sector in Malaysia

![Chart showing employment in services sector in Malaysia from 1980 to 1997.]


Although the current economic environment has inevitably led to a slowdown with a negative 6 percent GDP growth in 1998 and the 1999 GDP forecasted at negative 0.7 percent (The Star, 1998), the services sector is poised for healthy growth and will remain an important contributor to the Malaysian economy. All these figures underscore the importance of services in general and business services to the economy.

1.6 External Factors / Government's Role

With the GATS coming in force, globalisation is inevitable and will bring about intense competition what with the lowering of tariffs, the removal of protectionism trade barriers such as strict labour laws and deregulation of infrastructures such as telecommunications and banking and finance. The services industry in Malaysia will face new challenges and new competition.
1.6.1 Services as the New Competitive Landscape

According to Bettis and Hitt (1995), the new competitive landscape has been brought about by a more rapid rate of change in technology and a higher speed of diffusion of technology. The new environment has U.S.herded in the information and knowledge age, shorter product life cycles as well as making information and products available cheaply. The authors also noted that leaks of new products or services were rampant with the greater extent of job-hopping. As a result, patents have lost their potency to protect new products and services except in the pharmaceutical and chemical industries and consequently has reduced the barriers of technology transfers.

In the new competitive landscape, Industry boundaries have blurred. Management must radically change their mind-set. Alliances with the competition or co-opetition exemplified by Apple and Microsoft, will become more common to maximise the existing pool of resources for new and better product or service developments (Brandenburger and Nalebuff, 1995). In mature industries especially, even incremental innovation will place the company ahead of the competition. Sharing of resources across organisations instead of internalising resources within an organisation will be the new order of the day. Such a step has been implemented by Ogilvy & Mather and JW Thompson in Malaysia where the media department, traditionally an integral part of an advertising agency, is shared by both organisations. All these new strategies are dictated by the new competitive environment.

The new technological and knowledge-based environment will not only open vistas of opportunities but will also introduce threats. The growing importance of a knowledge-based society has also led to a surge in business services. Knowledge-based businesses require very little capital - a desktop computer, telecommunications equipment and perhaps an office or a virtual office is more likely - as compared to manufacturing with their
high capital expenditure and high overheads. The mushrooming of business services overnight has resulted in tough price competition, what with their very low overheads compared to bigger service organisations. Their small and lean organisation structure has also led to quicker response, a virtue in this period where time has become a resource.

These low barriers to entry has an impact on all knowledge-based service organisations in general and the advertising industry is not spared.

1.6.2 Growth Strategies for Services

A good understanding of the characteristics of services has strong implications for growth strategies for services.

Intangibility

The characteristic of intangibility has made services experiential. Key to the service experience is the service encounter where the service providers, the people involved in the encounter as well as the tangibles which include the equipment, physical surroundings, the building, vehicles and any other items used directly or indirectly with the encounter. Use of a two-dimensional grid with a "people" dimension and an "equipment" dimension would help service companies determine whether they are people-based or process-based in order to develop strategies that will maximise their advantage (see Figure 1.4).

People-based services would have to place more emphasis on service provider training and incentives to improve skills, competence and empowerment. Equipment-based services would focus on process enhancement and delivery at arms-length to achieve consistency in service levels.
The above grid could be extended to the advertising industry where various business components could be separated into creative, media, research and account servicing. Components high on equipment and low on people such as media, could be turned into back-room processes and its consistency improved through technology and method of delivery could be conducted at arms length. Similarly, creative which is high on the equipment and people dimension could develop the studio component as a back room process and use computers or technology for improvement but the art and copy components which are more people-based would require people-development strategies.

**Harder For Customers To Evaluate**

As the nature of services is experiential, it is more difficult for customers to evaluate services prior to their purchase. Unlike physical goods which are high in search qualities, attributes such as colour, style, fit, etc., that customers can discern prior to purchase, most services tend towards high experience or credence qualities. Experience qualities are characteristics of the service that are discerned only after purchase or consumption. They include taste, wearability, ease of handling and so on. Services that are high
in credence qualities are difficult to evaluate even after consumption. Examples include surgery and technical repairs (see Figure 1.5).

**Figure 1.5: How Product Qualities Affect Ease of Evaluation**

![Diagram showing the relationship between ease of evaluation and product qualities]

- **Most Goods**
- **Most Services**

Easy to Evaluate: Chair, Automobiles, Restaurant Meals, Haircuts, Legal services, Surgery

- High in Search Qualities
- High in Experience Qualities
- High in Credence Qualities

Source: Christopher H. Lovelock, 1996 (adapted from Zeithaml)

Advertising consultancy would be categorised as having high credence qualities and the service is thus difficult to evaluate. In order to reduce cognitive dissonance after consumption, the author has suggested some strategies to reduce risk. They could include information to help customers evaluate alternatives in the form of corporate brochures, portfolio presentations or advertisements and documentation of the firm's competence in the form of awards (see Figure 1.5).

**Perishability**

The characteristic of perishability where services are consumed as they are created, would mean that service companies cannot produce in surplus to store in anticipation of extra demand. Strategies to manage demand and capacity are important in the circumvention of this characteristic.
Lovelock (1996) has suggested some capacity management strategies concern the productive capacity of staff, equipment and facilities, which include:

- **Labour**
  - "Chase demand" strategies such as part-timers and outsourcing during peak demand
  - Schedule downtime during periods of low demand where employees take their vacation, undergo skill enhancement or take up training programmes
  - Cross-train employees so that they can be shifted to bottleneck points as needed

- **Equipment and facilities**
  - Schedule downtime during low demand periods for maintenance and repair
  - Rent or Share extra facilities and equipment

Strategies to manage demand, suggested by Lovelock (1996), include

- do nothing and let the demand find its own level, although the danger is loss of customers and some bad word-of-mouth publicity
- reducing demand during peak periods by offering incentives to use the service later such as off-season passes
- increasing demand when there is excess capacity by providing incentives
- inventorying demand until capacity becomes available through reservations or queuing systems

This characteristic thus also allows for a greater degree of customisation. Customisation can be arranged along two dimensions, the extent to which the characteristics of the service and delivery system can be customised and the degree of judgement the customer-contact personnel are allowed to exercise during the service performance (see Table 1.2).
Lovelock (1996) has suggested some capacity management strategies concern the productive capacity of staff, equipment and facilities, which include:

- Labour
  - "Chase demand" strategies such as part-timers and outsourcing during peak demand
  - Schedule downtime during periods of low demand where employees take their vacation, undergo skill enhancement or take up training programmes
  - Cross-train employees so that they can be shifted to bottleneck points as needed

- Equipment and facilities
  - Schedule downtime during low demand periods for maintenance and repair
  - Rent or Share extra facilities and equipment

Strategies to manage demand, suggested by Lovelock (1996), include

- do nothing and let the demand find its own level, although the danger is loss of customers and some bad word-of-mouth publicity
- reducing demand during peak periods by offering incentives to use the service later such as off-season passes
- increasing demand when there is excess capacity by providing incentives
- inventorying demand until capacity becomes available through reservations or queuing systems

This characteristic thus also allows for a greater degree of customisation. Customisation can be arranged along two dimensions, the extent to which the characteristics of the service and delivery system can be customised and the degree of judgement the customer-contact personnel are allowed to exercise during the service performance (see Table 1.2).
TABLE 1.2
CUSTOMISATION AND JUDGEMENT IN SERVICE DELIVERY

<table>
<thead>
<tr>
<th>Extent To Which Customer-Contact Personnel Exercise Judgement in Meeting Individual Customer Needs</th>
<th>Extent to Which Service Characteristics Are Customised</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Legal Services</td>
<td>Education (large classes)</td>
</tr>
<tr>
<td>Health Care/Surgery</td>
<td>Preventive Health Programmes</td>
</tr>
<tr>
<td>Beautician</td>
<td></td>
</tr>
<tr>
<td>Education (tutorials)</td>
<td></td>
</tr>
<tr>
<td>Telephone Services</td>
<td>Public Transport</td>
</tr>
<tr>
<td>Retail Banking (excl. major loans)</td>
<td>Fast Food Restaurant</td>
</tr>
<tr>
<td>Good restaurant</td>
<td>Movie Theatre</td>
</tr>
<tr>
<td>Spectator Sports</td>
<td></td>
</tr>
</tbody>
</table>

Source: Christopher H. Lovelock (1996)

According to Table 1.2, the advertising industry would be classified as advertising consultancy services which would involve a high degree of customisation and would require a high degree of judgement on the part of the customer-contact personnel in the service performance. The judgements are mostly prescriptive where customers seek advice. This type of customisation falls under the “knowledge” industry. Strategies to excel will thus include extensive training to develop the requisite skills and judgement needed for satisfactory service delivery. However, customisation is costly as solutions are made to suit the situation and the individual customer. Some degree of standardisation may be possible after looking into customer’s choice criteria especially those relating to price-value trade-off and competitive positioning strategies. In the advertising industry, standardisation of part of the service could come from the regular ADEX and competitive reporting to clients.

Variability
People, the service provider and the customer, are important components on either side in a service industry. It is the people factor that contributes to the variability of the service. As such, standardisation and quality consistency of the service are difficult to achieve. Key to managing the variability factor would be the human resource factor. Policies in attracting and hiring suitable staff, staff training and development, staff incentive programmes and reduction in staff turnover go a long way in reducing
service variability. One such way is to match the product mix of the service company to the available resources and to staff's professional interests, in particular the firm's most creative and ambitious principals (see Figure 1.6).

![Figure 1.6: Product Mix For A Professional Service Firm](image)

**Source**: Christopher H. Lovelock (1996)

### 1.6.3 Government's Role

Realising the importance of services to the nation's GDP, various nations have taken measures to stimulate its growth, as reported by Selwyn (1991).

**Workforce**

In Hong Kong and Singapore, governments have invested in strategies to develop the labour force through education and skills training (Selwyn, 1991). As jobs in the manufacturing and other sectors are eliminated or reduced, employees need to be retrained. This is a job for both the public and the private sector. It is recommended that the role of the private sector would be to forecast the demands and provide training to enhance and
broaden the skills of employees. The role of the government is far wider in that they provide the incentives to encourage training of employees. The provision of the Human Resource Development Fund (HRDF) in Malaysia is one such impetus for training (HRDA, 1992).

At grassroots level, it is recommended that the school curriculum should incorporate these changes so that when school leavers join the workforce, they are equipped with the necessary skills. In Malaysia, technical skills in computers is an important proponent of the New Education Policy.

**Infrastructures**

Important support to the services industry are banking and financial institutions, telecommunications and an effective and efficient legal system (Selwyn, 1991). These must also be put in place. Many governments have deregulated these sectors so that they are made efficient and responsive to technology and market forces such as the privatisation of Sistem Telekom Malaysia Berhad (STMB) in Malaysia.

At the corporate level, important factors include skill enhancement which will entail training, staff empowerment, use of technology to facilitate the service process.